

PROFITS AND POLITICS
IN THE
POST-WAR WORLD

An Economic Survey of Contemporary History

by

R. D. CHARQUES

and

A. H. EWEN

LONDON
VICTOR GOLLANCZ LTD
14 Henrietta Street Covent Garden
1934

CONTENTS

<i>Chapter VI. The United States</i>	<i>page</i> 134
Introductory	
The New Imperialism	
The Morning after Prosperity	
The American Prospect	
 VII. Japan	 166
The Emergence of Modern Japan : The Structure of Japanese Industry	
Before and After the Washington Treaty	
Economic Problems and the Manchurian Venture	
The Future	
 VIII. China	 194
The Partition of China and the Rise of the Kuomintang	
The Intervention of Soviet Russia	
The Future of the Chinese Revolution	
 IX. Soviet Russia	 216
The Economics of Intervention	
World Revolution	
The Five-Year Plan and the Future of Soviet Economy	
 X. Great Britain	 236
Before and After the War	
The Restoration of the City	
The Suspension of the Gold Standard	
Imperial Relations	
Internal Politics and the Crisis	
 XI. Prospects and Conclusions	 270

MAPS

Central Europe	<i>facing page</i> 24
Mediterranean and the Near East	85
The Far East	166

PREFACE

THE PURPOSE of this book, which is designed in the first place for the ordinary reader, is to present in outline the economic aspect of world politics since the Treaty of Versailles. Nothing more than an outline has been attempted. The book has not been planned as an exhaustive study of the economic factors in post-war politics, still less as a piece of research into inter-related problems of world economics and international relationships. It aims only at a coherent sketch of the part played by dominant economic interests and influences in shaping the policy—particularly the foreign policy—of national governments during the past fifteen years. Such a sketch is all too rarely drawn by the professional economist and never by the professional politician.

The countries surveyed are France, Poland and the States of the Little Entente, Italy, Germany, the United States, Japan, China, Soviet Russia and Great Britain. It has seemed advisable, in order to reduce the outline to manageable proportions, to devote a separate chapter to each country rather than attempt a simultaneous view of all the countries concerned. This arrangement has its disadvantages, and may have resulted in some over-simplification and overlapping. For both these probable defects, which the authors have risked in the interests of clarity, they offer their apologies.

Much of the material on which the book is based has been derived from numerous published works and from a study of the British, American, French, German and Russian Press. The facts as set forth here are, indeed, available to

everybody, and are not in dispute. It is in the correlation of the facts that their significance lies. In correlating material drawn from a variety of scattered sources, the authors have not thought it necessary to advance a theory or a thesis. But they hope that the conclusion to be drawn from any of the chapters is self-evident.

The main lines of the survey extend in period to the unsurprising failure of the World Economic Conference in the summer of 1933. A concluding chapter, "Prospects and Conclusions," brings the story down more or less to the present day.

Errors are inevitable in a book of this kind. In the hope that they are not numerous, the authors will be glad to be told where they occur.

London,
November, 1933.

R. D. C.
A. H. E.

CHAPTER I

INTRODUCTION

REGARDED for many centuries as a branch of philosophy, politics has laid greatest emphasis upon the ethical aspect of the problems arising out of the organisation of society. Thus the political aims of peoples and governments in the past have generally been expressed in such terms as justice and liberty, sovereignty and national honour ; more material factors have seldom entered into the definition of political principle. Even the French Revolution, which was finally precipitated by the economic situation brought about by unbalanced budgets and agrarian problems, evolved under the philosophical banner of Liberty, Equality and Fraternity.

The course of politics in the modern world is still dominated by philosophical concepts, but these concepts have inevitably been adapted to the requirements of a democratic order of society. The extension of the franchise in this country, for instance, to an electorate of both sexes who had not enjoyed the doubtful advantages of a classical education necessitated the translation of philosophical abstractions into more concrete terms ; and, in the period immediately after the War, the translation took the forms of such slogans as " Hang the Kaiser ! " and " Make Germany Pay ! " This process of simplifying political issues is greatly assisted by the power of the new popular Press, which carried matters much further by a search for " human interest " in politics, as the result of which marked emphasis was laid upon the personality of politicians, and

leading statesmen were presented in the picturesque guise of the heroes and villains of a political melodrama.

Viewed in the light of an intellectual and personal activity, politics has become, not more intelligible, but increasingly mysterious, and the ordinary man or woman is apt to be completely baffled by the complex turn of contemporary political events. The internal politics of this country, for instance, regarded as an expression of conflicting philosophical principles, may perhaps make sense up to a point. But its foreign politics—and the dependence of internal politics in almost every country of the world on foreign politics grows more apparent every month—can be only a kaleidoscope of obscure motives and causeless incidents.

In point of fact, the philosophical conception of politics has proved totally inadequate for an understanding of the course of world affairs in the period since the War. It is, indeed, largely responsible for two significant features of the present political situation : the inertia of governments and the growing volume of discontent with democratic forms of government. The average voter, though he may well have no means of discovering the real issues at stake, is not seldom conscious nowadays of the inadequacy, indeed the irrelevance, of the political issues presented to the electorate. Hence the tendency on the part of all classes to welcome any novel expression, however fantastic, of political principle.

Definitions, in Samuel Butler's phrase, are a kind of scratching which generally leave a sore place more sore than it was before ; but it may be safe to suggest that the essential function of politics in the modern world is to relate government institutions with the organisation of that division of labour and specialisation of occupation which is the distinctive mark of civilised society. This function of politics is indivisible, since government implies the

INTRODUCTION

maintenance of law and order, and law and order are dependent, in the last resort, upon the maintenance of the existing social order—that is, the established division of labour. Now this in turn is the foundation of economic life. Clearly, therefore, the sphere of politics should include all questions of vital economic importance to society, such as prices and wages, currency and credit, etc., etc. The fact that this has not been the case until comparatively recent years, and is now the case only to a strictly limited extent, accounts more than anything else for the almost incredible breakdown of the organisation of civilised society throughout the greater part of the world to-day.

Just as politics has been catalogued as a series of intellectual and ethical problems, economics has been conceived as an abstract study of mathematical and statistical factors. Here again it is only in recent years that economic theory has been brought into touch with the practical occupations of society, and again only to a restricted degree. The scorn for the professional economist displayed by practising bankers is well exemplified by the fact that no statistical department existed at the Bank of England until a few years ago, while the theoretical bias of economic study is evidenced by the difficulty which the Macmillan Committee experienced, and failed to overcome, in the collection of data the possession of which seemed vital in 1931 to the very existence of the City of London as a financial centre.

Politics and economics have been kept apart by the nineteenth-century doctrine of *laissez faire*. But the increasing complexity of modern society with its increasingly specialised division of labour has revealed the impossibility of maintaining any longer this traditional divorce. Political problems have tended more and more to acquire an essentially economic character, and economic problems have been created with increasing frequency by political factors. Politicians trained in the old school of intellectual debate,

who refused to recognise the inter-relatedness of political and economic factors, must take responsibility for many of the world problems of to-day. The Treaty of Versailles, the corner-stone of the present European political structure, was, amongst other things, an attempt to put into practice the intellectual ideals of President Wilson. As such, it did not seem to have occurred to the peacemakers that a world made safe for democracy might be impossible for humanity, and that liberty for subject peoples might be only the liberty to starve. No mistake was so fatal at Versailles as the omission of economic realities from the province of political idealism.

Similarly, bankers and industrialists, who have resented the intrusion of politics into "purely financial" and "purely industrial" issues, have been brought only by the slowest and most painful stages to realise that these issues are also political issues. Mr. Montagu Norman has made no secret in the past of his abhorrence of the use of financial weapons for political purposes, and his antipathy to French practices which were somewhat more elastic and up to date in this respect ultimately compelled this country to "slip off" the gold standard, to which we had agonisingly adhered for some five or six years. The divorce between economics and politics in this country was sharply illustrated from 1927 to 1929, when the Bank of England was subjected to a fiercely hostile attack by French financial interests, while the British Foreign Office, under Sir Austen Chamberlain and Sir William Tyrrell (now Lord Tyrrell, British Ambassador at Paris), was ardently Francophil, and actually rebuked those sections of the British Press which openly sided with the Bank of England and returned the abuse of the inspired French Press. The reunion of the City and Parliament was not consummated until the crisis of 1931; and in March 1933, Parliament was afforded its first opportunity of expressing an opinion on Mr. Norman's

INTRODUCTION

foreign policy when it was presented with a bill for £4,000,000 to cover British obligations to Austria contracted as the result of Mr. Norman's negotiations before the crisis. The creation of the Exchange Equalisation Fund has brought the Treasury and the City into even closer union, although Parliament has only with the greatest difficulty succeeded in obtaining any information about the expenditure of public money by this institution. Like the art of the executioner of Rouen, its operation is a highly skilled mystery.

Yet although the marriage of politics and economics in this country has received legal recognition only in recent years, their relationship dates in actual fact from the earliest times. The whole subject, indeed, as Mr. Keynes recently pointed out with special reference to the Elizabethan age, has scarcely received the attention it deserves from the academic historian. The publication of the Fugger news-letters has thrown a flood of light on the political aspect of large-scale commercial and financial transactions in sixteenth- and seventeenth-century Europe, while a work like Count Corti's *History of the House of Rothschild* has helped to establish in some detail the close intimacy of finance and politics during the first sixty years of the nineteenth century. It is true that, in this country, any overlapping of economic and political interests has almost always been viewed with disapproval and even with the gravest suspicion: witness the "Marconi scandal" of pre-war days. Nevertheless, it is obvious that the political organisation of the modern state, in both its capacity of debtor to the holders of government securities and as a customer of the privately owned armament industry, must have been increasingly influenced by the organisation of economic interests within the state. Moreover, since nobody disputes the truism that the first obligation of government is to safeguard the economic existence of the nation, it is

plain enough that the key to government policy can be found only in the sources of economic power.

Everything else apart, the peculiar advantage of approaching politics from an economic angle lies in the relative permanence of economic factors as compared with the evanescent significance of political personalities. The politics of a country presents an ever-changing façade, behind which lies a more or less permanent structure. Changes of government may indeed be likened to so many changes of window-dressing in a great department store ; the contents of the windows may alter from week to week, but routine activities scarcely vary at all. This metaphor is not without bearing on the case of Germany, where the drastic political innovations of the past year, following upon rapid changes of government, represent the culmination of a continuous economic process. No doubt the metaphor is better applied to those countries—Chile, for example—whose economic life is almost entirely devoted to the exploitation of possessions of raw material and whose political life thus consists of a fairly obvious series of surface decorations of the same economic policy. The political activities of most countries at the present day, however, whatever their economic interests, tend to exhibit a similar degree of decorative insignificance. For it is during a prolonged period of abnormal—that is, depressed—economic conditions such as the present that the window-dressing function of government is most in evidence. At such a period, a great deal of government activity may be likened to a bargain sale of unwanted stock.

The economic approach to modern politics has one objection. Economic influences are only *relatively* constant in the modern world. Since the most notable characteristics of the last sixty years in world economy have been, first, the tendency for industry to surpass agriculture, and then the tendency for finance to become predominant over both

INTRODUCTION

before the electorate. A more fundamental cause of the emergence of dictatorship is to be found in the economic sphere.

A review of the circumstances coinciding with the emergence of dictatorship in Europe, whether it be of the Communist type as in Soviet Russia, or a dictatorship of middle-class capitalism as in Italy, or of the aristocratic-industrial order of Germany to-day, leaves no doubt that the preliminary condition for a successful establishment of dictatorship is the collapse of the national economy. Dictators may seek power before economic conditions are ripe, and perhaps Sir Oswald Mosley will be included in this category of dictator. Herr Hitler, whose accession to power was delayed for several years by the financial support which the United States afforded Germany—hence his anti-American campaign of 1926–28—had to wait far longer than he desired for the ripe moment. Economic collapse, or the immediate threat of collapse, seems essential to the overthrow of modern democratic institutions. Collapse may be brought about by internal disorganisation, as was the case in Russia, where the never very stable Tsarist economy went to pieces under the combined strain of hostilities and bureaucratic corruption ; or by the inability of a new economic organism to maintain its place in the world economy, owing to weak competitive power and lack of credit, as was the case in Poland ; or by foreign pressure, political and economic, as was the case in Germany. In every instance, however, the essential function of dictatorship has been the attempt to restore the foundations of economic life. In Soviet Russia the attempt took the form of a revolutionary reorganisation of economic relations in society. In Poland and Italy it took the form of a complete assertion of the central executive authority. It is as yet too early to forecast the German method, although

the urge towards a "totalitarian" state has become increasingly vigorous.

It is clear, at any rate, that the survival of modern dictatorships has been dependent upon the ability of the dictator to rally the nation's productive forces to his political standard. Inability to achieve this essential condition explains—the entire factor of Russian revolutionary sentiment apart—the failure of the Kerensky régime. It also accounts for the elimination of Dr. Brüning (whose government was virtually a dictatorship), the representative of the "ethical" interest of the Catholic Centre party, and later of General von Schleicher, who had no sectional following in Germany, in favour of a coalition of the German agricultural landlords and the Nazi organisation, the second of which had for some time enjoyed close relations with the big industrial interests in the country.

It is true that the dictators seldom admit the priority of economic factors. Almost invariably, indeed, they stress the importance of intellectual and psychological imponderables. Even Lenin, though scarcely lacking in realism regarding the economics of revolution, viewed the triumph of Bolshevism as the first phase in a process of imminent world revolution designed to liberate the oppressed peoples of the earth. From 1921 onwards, however, increasing emphasis had to be placed upon economic reconstruction in Russia, until in 1928 the entire activity of the state converged upon the realisation of the Five-Year Plan.

In Poland, Marshal Pilsudski assumed dictatorial power in 1926 in collaboration with the big industrial interests, whose operation had been gravely imperilled to the point of impending disaster by the German revival and the resulting economic war. In his proclamation of dictatorship, however, Pilsudski emphasised above all else the fact that he was fighting for "the respect of . . . virtue, honour, courage and in general the moral virtues of man." In both

INTRODUCTION

Italy and Germany the dictatorship has laid immense weight on the factor of racial consciousness, and has sought to justify itself by leading a rather bellicose and high-sounding movement of the national soul, ancient Roman and choice Aryan respectively. In spite of this ideological and romantic interpretation of its office, the facts prove conclusively enough that dictatorship functions in accordance with economic rather than psychological necessities. The Fascisti have been compelled, owing to the national poverty, to abandon an aggressive armament programme, while it is highly unlikely that the Nazi dictatorship will live up to its romantic promises. Only in Russia does the dictatorship continue to emphasise its economic function, though it may be noted at the same time that the announcement of the control figures and production figures of Soviet-planned economy usually prelude an exhortation to the masses in their rôle of spearhead of the world proletariat.

There is no intention of attempting to include, in this general survey, a commentary on the various stages of the world economic crisis. Superficially, the immediate difficulties of every country in the world may be traced back to the abnormal working of credit control and price levels. An investigation of these factors, even within the restricted scope of the political issues they have raised, would take us far afield. Nevertheless, in presenting in outline the economic aspect of world politics since the Treaty of Versailles, it is impossible to leave out of account the deeper relationship of the present crisis to the existing economic structure of society. A system of unregulated production for private gain can establish no satisfactory relation between productive and consuming capacity, and it is the failure of the leading industrial countries to achieve such a relation in a world which has grown increasingly interdependent that is the primary cause—though not the only cause—of the world-wide depression. The desire to

revolutionise the existing economic relations in society has provided the only genuine issue of internal politics in the advanced capitalist democracies of Europe since the War.

The attempt that is made here to indicate some of the more important interactions of economics and politics, especially with reference to foreign affairs, in the chief countries of the world during the past fifteen years may well seem somewhat ambitious. Complex though the problems involved may appear, however, the associated industry and finance of modern times is so highly centralised and unified in its federations of employers and employees, its vertical and horizontal trusts and syndicates, its system of interlocking directorates and so on, that it is not impossible to sketch its operations in simple outline without undue distortion. It is no exaggeration, for instance, to assert that modern Japan is the property of five families. Mussolini attempts to comprehend the entire economic life of Italy within six corporations. In Great Britain, while a considerable volume of individual and unorganised economic activity still persists, the tendency to form ever more comprehensive amalgamations, as in the case of the banks and railways after the War, and to extend industrial co-operation, has become increasingly pronounced. In the years before the War, Theodore Roosevelt could say, with a large measure of truth, that the whole of the United States was owned by forty men, and the growing dominance of finance over all economic activities since Theodore Roosevelt's day has probably reduced the number to less than half.

It would, however, be an error of judgment to regard these small groups of "owners" as Machiavellian conspirators seeking international chaos for their own ends. Actually their increased nominal control of economic interests has, by its sheer complexity and magnitude, simultaneously restricted their freedom of action. It is possible, waiving aside all matters of economic theory, that

INTRODUCTION

this is an important factor in explanation of their continued inability to extricate themselves, let alone the world, from the present slump. Whatever the degree of freedom of action involved, however, it is fairly certain that the resilience which previous depressions in the trade cycle have exhibited has completely vanished from the contemporary scene.

A very brief summary of the characteristics of post-war history may fittingly conclude this introduction. Some degree of clarity may be attained by a division of the years from 1918 to the present into four distinctive periods.

The first period, from the end of hostilities to the later part of 1923, was one of general reorganisation in Europe and of the settlement of the political and economic problems created by the years of war. The Peace Treaties, which involved plebiscites, the solution of frontier questions and agreement on a detailed schedule of reparations, were not finally completed until the end of 1923. Politically this was a period of Communist revolutions and other uprisings in central Europe, which were followed by the assertion of more traditional forces of government. Economically the period was characterised by the instability of currencies and an attendant process of inflation, and by the collapse of foreign exchanges with the consequent suspension of a great part of pre-war international trade.

The second period, roughly from 1924 to the summer of 1929, was one of relative stabilisation, already ushered in by the settlement of the British debt to the United States. It was characterised, in the economic sphere, by the introduction of the Dawes Plan of reparations, the return of Great Britain to the gold standard and the restoration of European exchanges through League of Nations and Bank of England stabilisation loans. The re-emergence of Russia into the comity of nations dates from the opening of this

period, which likewise marks the beginning of the prosperity boom in the United States. The entire period was marked by critical labour troubles throughout Europe.

The period from October 1929 to September 1931 was a period of deepening trade depression, characterised by the catastrophic collapse of commodity and stock-exchange prices, and leading to world financial crisis. Difficulties in Germany had been temporarily settled by the Young Plan, but nothing could stay the collapse of the Wall Street boom. The obstacles in the way of international trade grew more numerous. The dominant international political factor during these two years was the power exerted by French finance capital, which played its part in precipitating financial crisis in this country and the suspension of the gold standard.

Finally, the period from September 1931 to the present day has proved barren of constructive results and almost of hope. A long series of international conferences has achieved nothing, or next to nothing. There is no sign of a forthcoming settlement of the problems of disarmament and war debts, and the prospects of a resumption of the World Economic Conference are likely to commend themselves only to the unreasonably optimistic. Meanwhile the steadily increasing difficulties in maintaining international trade have resulted, in many countries of Central Europe and South America, in the almost total cessation of the external exchange of products ; the figures of unemployment show no marked decrease in the principal industrial countries and are indeed rising sharply in France, Italy and Czechoslovakia ; and reductions in the standard of living everywhere give a militant turn to social discontent. For the rest, the unlovely re-birth of Germany, the most significant feature of European politics at the moment, has coincided with the strengthening of the presentiment of war in Europe again.

The economic outline of post-war politics which follows

INTRODUCTION

begins with France, since France has held the key policy in Europe for most of the period preceding the financial crisis. It ends with Great Britain, since the economic future of this country is not so much in our own hands as dependent upon the march of events in other parts of the world.

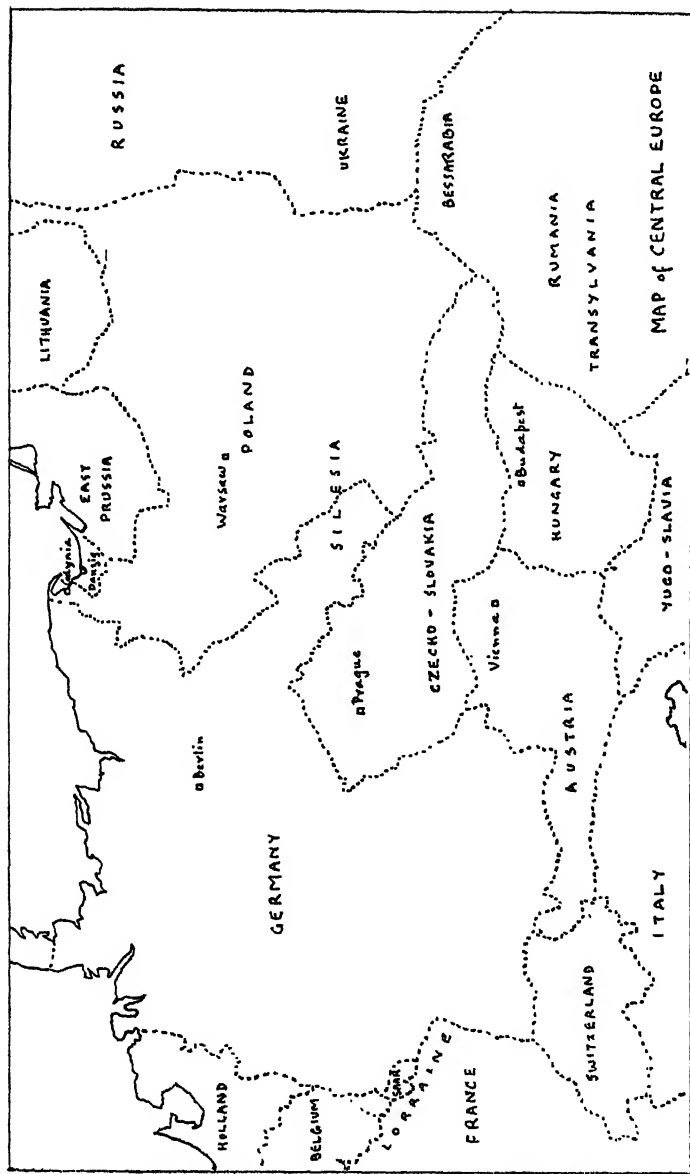
CHAPTER II

FRANCE

Economic Structure and Political Parties

IN ANY attempt to follow the course of French government policy at home and abroad since the War and to disengage the primary economic factors which have determined government policy, it is essential to bear in mind the main lines of division in French political organisation. These lines of division, as illustrated in the composition of the Chamber of Deputies, are frequently baffling to the foreigner. Yet it is impossible, without an understanding of the precise groups and groupings in the Chamber, and of the particular economic interests in the country which each group tends to represent, to appreciate at their proper value the motives of any of the long series of French governments since 1918, more particularly in the field of foreign affairs. It is true to say, for instance, that the pivot of French international relations since the War has been the attitude of France to Germany—or, more bluntly, that the constant political factor in French foreign policy since the Treaty of Versailles has been the desire to perpetuate the terms of the Treaty and thus to maintain the subjection of Germany. Nevertheless, this basic principle has been expressed by different French governments in different ways, and with varying economic emphasis, while the actual measures adopted to maintain Germany in subjection have depended on the economic complexion of the predominant groups in the Chamber.

It is owing to the greater complexity of the economic



structure of France that the French political system, unlike the British, is a group system and not a party system. For the same reason a French government can seldom rely upon all of the supporters of one government measure to support another and different type of measure. A point that should be noted at the start is that the leader of a French government is seldom also the head of a distinctive group of Deputies in the Chamber. The influential figures in French post-war politics have generally stood apart from the groups with which they were originally associated ; as in the case of, for instance, MM. Poincaré, Briand, Tardieu, Laval, Paul-Boncour, French Premiers have most often played the part of professional tacticians in the Chamber, their business being to form coalitions and alliances of groups for the purpose of securing a government majority. Further, although the main combinations of political groups can be conveniently sub-divided into Right, Centre and Left, it should always be remembered that there is no formal division between the wings and the centre of even the biggest groups or between the right wing and the left. For the country as a whole a general election signifies the attempt to discover the whereabouts, so to speak, of the centre in the Chamber—whether, that is, the centre has moved in political sympathy to the right or left. Of the four years of life of a Chamber, M. Barthou once observed, the first two are spent in discovering the results of the general election, and the next two in preparing the groupings or combinations for the new Chamber.

The Centre groups form the political backbone of the country, and are solidly republican. They represent the provincial and petty bourgeoisie, the peasant proprietor and the agricultural sections generally, and embrace the interests of the huge class of small *rentiers*. Perhaps the most permanent economic motive of the Centre groups is expressed in the anxiety to avoid taxation—an anxiety which

has prompted the saying that a Frenchman would rather die for France than pay taxes for it. The chief of these groups, whose foremost politician in recent years has been M. Herriot, bear the titles of "Radical," "Socialist-Radical," and so on. It is essential to realise, however, that French radicalism and socialist-radicalism are, from the point of view of British politics, neither radical nor socialist; the terms are not meant to express "labour" sympathies, but are employed in a "classical" sense. The right wing of the Centre groups represents the interest of provincial industry, especially textiles and small-scale light industry, and does not differ perceptibly in matters of political sentiment from the French Right.

The Right is composed of the groups representing the bourgeoisie proper. At the extreme end are the Royalist remnants of France. Then come the developed industrial and financial interests created during the Second Empire, which are centred to-day in the banking activities of Paris. These interests include the greater part of French heavy industry, notably armaments and railways, the electrical industry and its allied wireless industry, the virtual oil monopoly and banking and insurance generally, and are concentrated in the activities of financial institutions such as the Banque de Paris et des Pays Bas. Next comes the Army group, a permanent and weighty factor in French politics; the higher appointments to the French General Staff are almost always political appointments, as was evidenced with distressing plainness during the War. For the most part these groups are, in practice, markedly Catholic—thus providing a further source of hostility to the agnostic and anti-clerical groups of the provincial and petty bourgeoisie. Finally, there are the big *rentier* interests, which are scattered throughout the groups of the Right, and which are served by the policy of the Paris banks in regard to financial expansion abroad. The Right thus presents a

complex of economic forces in which the banks are the key to heavy industry, which in turn is largely dependent upon foreign railway construction and armament contracts. Its political policy therefore is consistently and vigorously patriotic and anti-German, and favours aggressive schemes of foreign investment. In the years after the War these groups of the Right formed the Bloc National, whose leader in the Chamber was M. Poincaré.

The Left may be divided, more or less roughly, into three sections. There are, first, the forces of French labour, as represented by two groups of Deputies, one of which pursues the policy of the *Confédération Générale du Travail* (the French Trades Union Congress), while the other, with similar aims in the sphere of state socialism, voices the wishes of the *fonctionnaire*—the large class of French civil servants. This combined section maintains uneasy and somewhat shifting relations with the smaller but more thoroughgoing group of convinced Socialists, of whom M. Léon Blum is at present the intellectual leader in the Chamber. Lastly, there is the Communist movement, which has its chief following among the industrial proletariat of Paris, Marseilles, Lyons, Lille and Roubaix. It may be well to bear in mind, in view of probable developments in France in the near future, that Communism is in a sense a French creation: it received its baptism of fire in the Commune of 1871.

A strange anomaly arising out of the peculiarities of French political organisation merits notice here. As has been remarked, there is a vast *rentier* class in France: a great proportion of the population, that is, own investments. (French Government Loans are *Rentes*—hence the extension of the word *rentier* to cover the owner of any interest-bearing securities.) The groups of the Centre and of the Right both represent the *rentier* class, the small and the large *rentier* respectively. Thus although the Centre and the Right are

nominally opposed to one another and pursue policies which conflict on several major issues, the agricultural and petty bourgeois elements which support the one are nevertheless almost entirely dependent for their investments on the industrial and financial oligarchy which is the source of strength of the other. From this situation arises the distrust of Paris—of the Paris banks, that is—which is so marked a feature of the political and economic outlook of the provinces. The inherent suspicion of Paris entertained by the petty bourgeois and the peasant proprietor, which was enormously strengthened by the shady speculative record of financial interests under Napoleon III, has been a very powerful factor in French politics in the last few years, and helps to explain the French habit of hoarding, particularly at moments of political tension.

One further point needs to be emphasised at the outset. In reviewing the force of French public opinion, it is necessary to recognise the peculiar character of the French Press. This is, from first to last, a "controlled" and "subsidised" Press, which voices the aims of definite financial and industrial groups in the country and is harnessed to particular groups and sections in the Chamber. This state of affairs, of course, is not confined to the Press in France; but it has reached a singular pitch of perfection there. There are at any rate few "independent" French newspapers; instead there is an increasing tendency on the part of the financial houses in Paris to concentrate ownership of the Press in their hands. Thus the *Temps*, which was at one time regarded as the mouthpiece of the French Foreign Office, is now jointly edited by a representative of French coal interests and a representative of the Wendel armament and banking interests. It was also the Wendel organisation which purchased, in 1929, the *Journal des Débats*. Again, as is generally known, the *Écho de Paris* is concerned to present the views of the General Staff; M. Coty commands the

Figaro and the *Ami du Peuple*, the latter of which is far from being a friend to either Germany or England and is least of all a friend of the people, and both of which are not indifferent to the propagation of M. Coty's diverse economic interests; a great banking house, Lazard Frères, has a controlling interest in the important financial newspaper, *L'Information*; while the Agence Économique et Financière, which issues an influential *Bulletin*, is, it may be remarked, the property of M. Henry Bérenger, head of the Foreign Affairs Committee of the Senate. On the other hand, the Centre groups are not lacking in provincial newspapers. The most powerful organ of the provincial Press, the radical *Dépêche de Toulouse*, is largely owned by the brother of M. Albert Sarraut, the Minister for Colonies in M. Daladier's government and successor to M. Daladier in the Premiership; while the *Petit Journal*, formerly the property of M. Loucheur, has recently passed into the control of the young Franco-American, M. Raymond Patenôtre (who was rewarded for his support of M. Herriot in the elections of 1932 with the post of Under-Secretary of National Economy), and is the main link of a big provincial newspaper chain. The Left has its own variegated Press, ranging from the *Populaire* to *L'Humanité*. And so on, and so on.

It should be evident from these facts that the most assertive French views on both home and foreign affairs are apt to represent only the views of sectional economic interests in France, and that the actual policy pursued by the French government is at all times likely to be influenced by the narrow concentration of economic power in the hands of the Paris banks.

We may proceed immediately to an examination of French post-war foreign relations in their bearing on the problems of French heavy industry.

Heavy Industry and the Treaty of Versailles

The industrial clauses of the Treaty of Versailles were drawn up largely on the recommendations of the Comité des Forges (the French association of ironmasters), of which the firm of Schneider-Creusot was a leading member. All German industrial properties in Alsace-Lorraine were, by the terms of the Treaty, sequestered without compensation (the previous German owners were partially compensated by Germany), and M. Millerand, who in his capacity of nominal leader of the Bloc National in the Chamber had previously shown himself favourable to the Schneider interests, was appointed High Commissioner for Alsace. These industrial properties were bought by members of the Comité des Forges at ludicrously low prices, and—the capital charges being far below their real worth—made enormous profits for their new owners. It may be well to point out here that it was the extraordinarily inexpensive acquisition of the industrial wealth of Alsace-Lorraine which was a prime cause of the continued stability of French heavy industry after the War, just as it was the rebuilding of the devastated areas with its employment of French labour on a vast scale and entirely at German expense which accounted, at any rate in large measure, for the prolonged French immunity from unemployment.

This, however, is to digress. The point that needs to be emphasised is that the industrial clauses of the Treaty of Versailles gave less than complete satisfaction to members of the Comité des Forges. Enormous though their gains were, their expectations had been even greater. And the expectations of French ironmasters, who had been powerful enough, it appears, in 1917 to prohibit the bombardment by air of the Briey Basin (Lorraine) in the hope of acquiring *undamaged* properties after the cessation of hostilities, have always played a prominent part in French politics. The

truth is that M. Clemenceau, mindful though he was at Versailles of the claims of French heavy industry, was not quite so absorbed in the subject as M. Poincaré. M. Clemenceau, having disposed satisfactorily of Lorraine, eastern Silesia and the Saar Basin, permitted Germany to retain one great coal and iron area—the Ruhr. It is probable that M. Poincaré, with the inevitable support of Marshal Foch, would have arranged matters differently. The disappointed members of the Comité des Forges had at any rate to exercise a little patience. Their opportunities for the future had not been altogether overlooked at Versailles.

The leading part in the development of French heavy industry in the years after the War fell to the firm of Schneider. It was M. Eugène Schneider—whose greatest opportunities have coincided with changes in French policy initiated first by M. Poincaré, then by M. Tardieu—who founded, in 1920, the Union Européenne Industrielle et Financière, a consolidation of various existing enterprises, as an instrument for developing the “succession states,” namely Poland and the countries of the Little Entente (Rumania, Czechoslovakia and Yugoslavia). It was the Union Européenne which bought up and developed the existing heavy industry in those countries, thus assisting in the creation of a vast French armament trust throughout Central Europe and facilitating—indeed formulating—the policy of the French government in regard to the military encirclement of Germany on the east and the provision of a *cordon sanitaire* against Russia. And it was the peculiar needs of this French armament trust, and the desire to extend French control of heavy industry abroad, which determined the main lines of French policy in Europe for several years after the War and which precipitated the French invasion of the Ruhr in January 1923.

The outward cause of the occupation of the Ruhr was intelligible enough. Germany had defaulted in payment of

the reparation annuities : that was the unvarnished pretext for the French invasion. But the pretext needs to be scrutinised in the light of an even deeper economic interest. The French were not unprepared for German default. It is fairly certain at the present day that France, in gaining consent at Versailles to a claim for reparations from Germany vastly beyond the figure which the experts had decided that Germany could reasonably be expected to pay, was not solely concerned with the question of payment. Even the Spa claim, in 1920, of £12,000,000,000 as the sum total of German reparations was pretty obviously an impossible one. Whatever their hopes of extracting the largest possible payments from Germany, the French did not, in fact, intend that Germany should pay this incredible amount of money, for it was plain enough that Germany could not pay it. The demand was based upon the confident and correct assumption that Germany (even though reparation payments might be scaled down, as they in fact were in 1921, to one-half the original figure) must inevitably default—and thus justify further French aggression. As such the original claim had been an astute French manoeuvre to attain objects which, owing to the necessities of diplomatic bargaining, M. Clemenceau—more farsighted than M. Poincaré—had not fully achieved at Versailles. No reasonable claim for reparations could have given France a lien on Germany's future anything like so binding as this completely impractical one.

French policy in the Ruhr was, in fact, in no sense an innovation. German default provided the matured opportunity for putting into effect the "productive pledges" which France had secured during the reparation discussions, and thus enabled the more active elements in the Comité des Forges to resume the original plans put forward, and only partially adopted, at Versailles. Control of the Ruhr—that is, of the coke supplies which were the economic

complement of the ore of Lorraine—promised the French ironmasters a virtual monopoly in Central and Eastern Europe. It would permit the German population to continue working the mines, whilst reserving ownership and policy, as in the case of the “autonomous” Saar Basin, for France. If political control could be established, either by French occupation alone or by occupation and the creation of a fictitious separatist movement in the Rhineland, the Comité des Forges would have achieved their end. Failing the seizure of the Ruhr mines, it would at least have been possible to close them down.

On the French side, indeed, the problem was more urgent at the beginning of 1923 than it had been at Versailles. For the industrial menace of the Ruhr had actually taken shape in the interval in the growth of the huge Stinnes trust, which was a powerful competitor to French heavy industry in many parts of Europe and a potential source of danger to French economic hegemony. The invasion of the Ruhr was undertaken with the support of a remarkable Press campaign, which put the question of French security into the foreground and did not a little to create a war atmosphere. The entire nation seemed to approve of the Ruhr venture. The Centre and even the Left raised few objections, but pinned their faith to Germany's capacity to pay reparations and thus ease the burden of taxation at home.

Nevertheless, French policy in the Ruhr met with total failure at first, owing to the determined German resistance. The partial success achieved in the following months was offset, first by the enormous expense incurred and the lack of an adequate return from Germany, then by the financial repercussions, in Poland and other spheres of French influence, of the inflation of the German currency, and finally by the increasing weakness of the franc. In the end the Ruhr venture completely broke down. The chief cause of defeat has yet to be mentioned.

This was British hostility to the entire drift of French policy abroad. This country, which had already been involved in conflict with France over the latter's line of action in Syria (in connection with oil concessions) and the subsequent French arming of Turkey, followed the French lead in the Ruhr with marked reluctance. Morally Britain disapproved of France's action, and moral disapproval, as is so often the case in this country, had the support of economic interest. For the close co-operation between Britain and France that had existed in 1919 had given way to a growing jealousy, expressed in the first place by British alarm at the developing strength of French heavy industry. France was clearly assuming complete control of the succession states, and was creating, in the Polish coal industry, a formidable rival to British coal exports, already greatly reduced by the enforced German coal payments—part of the reparations in kind—to France. The Ruhr invasion was an even more fundamental threat to the balance of industrial power in Europe. British pressure on France during the course of the occupation steadily increased. It was backed by public opinion in many other parts of the world, notably the United States, and eventually by French interests themselves.

French support for the British attitude came, oddly enough, from among the members of the *Comité des Forges*, more particularly the Wendel interests, the foremost rival of Schneider-Creusot. The latter, representing the heavy industry of central France, was engaged in direct competition with the Stinnes trust, which blocked the way to French plans of monopoly in armament material throughout a large part of Europe. The Wendel interests, on the other hand, were in Lorraine, and had been well served by regular deliveries of coke from the Ruhr. When these were held up by Germany's passive resistance, the internal hostility to M. Poincaré's policy inevitably grew

apace. The occupation dragged on fruitlessly during the summer, feeding the miseries of inflation in Germany and provoking resentment against France everywhere. Then came the preparations for the coming elections in France, which the Centre groups celebrated by speculative attacks on the franc, already imperilled by the cost of the occupation. When, therefore, the German government finally surrendered, M. Poincaré was powerless to reap the spoils of victory. Having temporarily succeeded in sustaining the franc, he was compelled by internal pressure to agree to the appointment of what afterwards became the Dawes Commission. The evacuation of the Ruhr was the signal for M. Poincaré's eventual defeat at the elections—and for the resignation of M. Eugène Schneider from the Comité des Forges.

The Ruhr venture had failed. But the motives that had inspired it still remained. M. Herriot, as the head of the amorphous grouping in the Chamber designated by the title Cartel des Gauches, succeeded M. Poincaré; the Dawes Plan, by providing Germany with American (and British) money to revive industry and to pay reduced reparations, put Germany on its feet again; and M. Briand, the Foreign Minister in the new government, pursued a policy of *rapprochement* with Germany that brought into view the possibilities of disarmament and culminated, in October 1925, in Locarno. It was this desire for friendly relations with Germany which again roused the French armament industry—that is, heavy industry—to decisive action. As Briand drily observed, the pens that wrote against disarmament and clamoured for security at all costs were made of the same steel as heavy guns. At any rate, from the summer of 1924 onwards, French heavy industry pursued new but equally elaborate methods of achieving its ends. These methods are to be appreciated chiefly in the light of financial operations at home and abroad

The Rentier Class and the Franc

It is worth while reviewing in some detail the internal affairs of France during M. Herriot's term of office, since they had important repercussions in the entire field of European relationships a few years later. The Cartel des Gauches had secured electoral victory through the threat to the franc caused by the adventure in the Ruhr and the failure to secure reparations under M. Poincaré's policy. The instrument of victory proved a boomerang. In the first place, M. Herriot inherited a very weak budgetary position, with which the Cartel was unwilling to come to grips. The interests in the country which it represented were not concerned, broadly speaking, with expansion and new markets, but with security of tenure and payments from Germany. M. Herriot's policy stopped short at signing the Dawes Plan, which guaranteed France an annual payment without further military expense, and at seeking mutual aid pacts and the kind of security that was eventually consummated at Locarno. Such a policy was flatly contrary to the interests of the armament industry and of the French banks involved in the fortunes of the succession states, particularly Poland and Czechoslovakia, which could not hope to compete successfully with a revived Germany. It was in Poland, it may be noted, that M. Herriot's accession to office, following upon his signature of an international protest against the Polish treatment of minorities, roused the gravest alarm.

The budgetary difficulties of the new government reached a point of crisis at the beginning of 1925, and, as the moment for the announcement of that year's budget drew nearer, the franc and government credit declined more and more sharply. Temporary credits obtained from the financial houses of Lazard and Morgan had only temporarily stayed the fall of the franc. It is said that the

Bank of England was approached on two occasions, but, in view of the failure of the French government to conclude a settlement of war debts, refused assistance—with serious consequences, as will be noted. Meanwhile numerous panaceas had been suggested in the Chamber. The Socialists proposed, as a means of balancing the budget, the nationalisation of the railways, a state petrol monopoly, a capital levy. The possibility of making economies in the military estimates was discussed from time to time, but was scouted by most groups. Meanwhile the franc continued to decline in value.

It was clear enough at the time, and is even more evident in retrospect, that the plight of the franc after the fall of M. Poincaré was not unaffected by the policy of those financial interests which stood to lose by M. Herriot's conciliatory attitude to Germany and the question of disarmament. From the moment, indeed, of his accession to office the franc was subjected to a more or less frontal attack by those interests. The attack was designed, of course, to produce an even more marked lack of confidence in the financial stability of the government and thus to engineer M. Herriot out of office. The Press of the Right attributed the fluctuations of the franc to speculative selling by German and British agencies, but newspapers of the Left did not hesitate to name M. Horace Finaly, director-general of the Banque de Paris et des Pays Bas, as the organiser of the attack. The simultaneous campaign which was directed against "confidence" in the franc by a large part of the Paris Press was also said to be subsidised by M. Finaly, with whose name gossip coupled that of Sir Basil Zaharoff, who had been associated with the Schneider concern in several deals, notably in Poland. The general effect of the campaign was to assist the flight of French capital abroad. Government credit sank towards zero, and finally crashed when the Bank of France, in April 1925,

admitted, with disconcerting candour, that it had been issuing doctored weekly accounts.

The unorthodox character of this practice of the Bank of France was noteworthy, but not more so than the bank's subsequent candour in the matter. The entire episode emphasises the rather-two-faced aspect of the Bank of France, which had adopted the practice in the public interest and then precipitated the fall of the government by revealing the practice—again in the public interest !

It may be helpful here, in view of later developments in connection with French financial policy, to make a few observations on the structure of French banking. The Bank of France is very differently constituted from the Bank of England. Like the latter, it is a "central" bank which issues notes, etc., and which is privately owned and pays dividends. There the resemblance ends, however. For the Bank of France, unlike the Bank of England, is also an ordinary public bank with numerous branches all over the country, and is thus directly susceptible to a *crise de confiance*. The Banque de Paris et des Pays Bas, on the other hand, though also privately owned, enjoys the advantages of being practically a government bank with none of its responsibilities : its board of directors includes representatives of all the French colonial banks, its subsidiaries act as the state bank of Morocco and Madagascar, and it has always maintained close contact with the Quai d'Orsay. M. Jules Cambon, the former Ambassador in Berlin and brother of a former Ambassador in London, is at present its vice-chairman and also chairman of the subsidiary Banque des Pays de l'Europe Centrale, a post which he held simultaneously with the chairmanship of the Council of Ambassadors in Paris after the peace negotiations. The parent bank is prominent in maintaining the French oil position (M. Jules Cambon is a director of Standard Oil), and is intimately associated with the

electrical industry and the French wireless monopoly, while its directors are also closely connected with the French railways and with insurance. The Banque de Paris et des Pays Bas is thus the chief organisation of the French big bourgeoisie and the large *rentier*, enjoying close contact with the government when the latter is a government of the Right. It may be regarded as the spearhead of French financial policy, with M. Finaly as its Chief of Staff.

The other big French banks do not directly concern us here. The point that needs to be emphasised is that, while the Bank of France, in its official capacity, had of necessity to be subservient to the French government, the Banque de Paris et des Pays Bas was quite free to use its influence against the government. And that, in point of fact, was what it did in leading the attack at home on the franc. Not unnaturally, the directors of the Bank of France, fully conscious of the identity of their financial interests with those of the Banque de Paris et des Pays Bas, seized the first opportunity to assist in the fall of the government. The tentative attack on the franc that had been launched by Centre elements during M. Poincaré's Premiership had failed, simply because M. Poincaré had had the principal banks with him. This later attack by the Right succeeded, and M. Herriot was brought down.

M. Caillaux, who stood farther to the right of the Cartel, restored temporary calm, and opened up debt negotiations with Great Britain. But his pacification of Right-wing groups in the Chamber was effected at the expense of the political support of the Deputies at the other end of the Cartel. Various permutations of groups in the Chamber were attempted during a brief period in which the continued depreciation of the franc increased the general alarm, until at last the way was open, in July 1926, for M. Poincaré and his Ministry of National Union, a strong

coalition formed for the express purpose of saving the franc.

M. Poincaré saved the franc with remarkable celerity. Drastic economies in government expenditure were necessary, but control was established soon enough. The franc was "pegged" at a figure which was steadily maintained during the next eighteen months, and which, after it had been confirmed by legal stabilisation on a gold basis in June 1928, enabled the French government to wipe off four-fifths of its internal (and foreign) indebtedness. The devaluation of the franc by stabilisation at the eventual rate of 124.21 to the £ dealt drastically with the savings of the French *rentier*, reducing such savings to one-fifth their former value. But this devaluation simultaneously cancelled four-fifths of the *rentiers'* indebtedness in mortgages, four-fifths of the capital charges on French industry and four-fifths of the country's foreign debts, notably to Britain. For the country as a whole there was immense compensation in the immunity to the prevailing economic depression which France thus purchased, and in the strengthened ability to compete in foreign markets. For the rest, the power created for the Paris banks by the devaluation of the franc to threaten the gold reserves of this country, and of the United States, doubtless seemed of more importance to M. Poincaré than the sacrifice of the long stockings of a great part of the population.

M. Poincaré could almost certainly have stabilised the franc on a gold basis at any time during 1927, but he preferred to keep the country in suspense until after the general elections of May 1928, when he was triumphantly returned to power as the saviour of France as well as of the franc.

One comment may be permissible here. It is generally recognised to-day that the huge gold and foreign exchange reserves accumulated by France as the result of stabilising

the franc at a level which enabled French producers to undersell almost all their important foreign rivals has been a potent factor in shaping the precise form of the world's financial crisis. In more than one quarter, indeed, it has been suggested that the French power to cause a maldistribution of gold reserves was the chief cause of the crisis. It was scarcely that : the root cause is surely to be found in a deeper malaise of capitalism. But the rapidity and deliberate intent of the French accumulation of gold and foreign exchange reserves undoubtedly aggravated conditions in which the dislocation of the world's credit and monetary systems was inevitable. Such dislocation, or at any rate the perfectly obvious risk of such dislocation, was undertaken in the sectional interest of France.

After the virtual stabilisation of the franc in the summer of 1926, France established a more or less complete identity between foreign policy and financial policy, and French participation in world affairs can thenceforth best be appreciated in relation to the activities of the Paris banks, particularly their foreign loan policy. Before proceeding, however, to outline the new phase of financial diplomacy, it may be helpful to attempt a brief survey of the general influence of the French *rentier* on the problems of colonial policy. The big *rentier* is both a pillar of the French colonial empire and the inspiration of French financial expansion abroad—that is, in Europe and Asia. But the interests of by far the greater numerical part of the *rentier* class are bound up with established industry and strictly colonial, as distinguished from foreign, enterprise. So far as French investments outside the country are concerned, therefore, the problem of every French government is how to reconcile the interests of one section of the *rentier* community with the interests of another section.

Capital Investment Abroad and Colonial Necessities

It is proposed here to review the main fields of French colonial investment and policy since the end of the War, including under this heading French activities in regard to "financial colonies"—that is, markets for the export of capital. To begin with, then, it should be remembered that it was the loss of French capital investments in Russia—a French financial colony before the War—which committed France to the policy of intervention. A considerable part of these capital investments was concentrated in the Donetz Basin (in the Ukraine), the richest heavy industrial area of pre-war Russia. France, it is clear, hoped to protect her interests there by detaching the Ukraine from the rest of Soviet territory, not by direct hostilities against the Bolsheviks. But intervention failed, and the French *rentier* wrote off his Russian investments as a dead loss, trusting to the energetic development of the new succession states—new financial colonies of France—to replace them. The Union Européenne Industrielle et Financière embraced heavy industry and armaments; a separate Banque Franco-Polonaise, designed to develop Poland, came into existence in 1920; the Banque de Paris et des Pays Bas had, in the previous year, created the Banque de l'Europe Centrale for developing Czechoslovakia, Austria and Hungary; while the existing Banque Franco-Serbe served Yugoslavia. The repercussions in Central Europe, however, of the collapse of the German currency during the Ruhr occupation stimulated the fears of the French *rentier* for the security of his *rentes*. This was a notable cause of the transference of support among the electorate from the Bloc National to the Cartel des Gauches. The latter re-orientated French economic policy in the direction of France's colonial empire, which was linked to the franc and, relatively speaking, was unshaken by its fluctuations.

The French colonial empire differs from the British in at least two fundamental respects. In the first place, it has never afforded a field for emigration. Secondly, it represents a real tariff unit, and guarantees the French *rentier* a safe—though in volume inadequate—outlet. All of the French colonies, particularly those in North Africa, serve France primarily as a field for investment. That apart, their importance lies in their value as a closed market for French goods, notably textiles, as a source of man-power reserves, and—in the case of French mandated territory in the Near East—as an essential territorial backing in the quest for oil.

French schemes of financial expansion abroad since 1924 have been sponsored by those same interests which animated the Ruhr venture. (It may be worth noting that it was the father of the present M. Eugène Schneider who, as a Royalist Deputy in the 'seventies, gave energetic support to French policy in Morocco, the latter a very significant factor in pre-war European affairs and a great bone of contention between France and Germany.) These schemes, however, have not directly hindered the consolidation of the French colonies in North Africa, where large plans of railway electrification and the organisation of air routes have been carried out in recent years. Morocco itself at the present day is almost the monopoly of the Banque de Paris et des Pays Bas, which, through its subsidiaries, exercises complete control of banking and railways and the tobacco monopoly. As regards the African colonies generally, the volume of textile imports, chiefly cotton fabrics, from France has greatly increased since 1924, and the French textile industry has become markedly dependent upon this closed market, which now accounts for as much as 20 per cent of the total home production. In 1929 (the last year for which figures are available) the total value of French colonial stocks and bonds was 16,000,000,000 francs.

The significance of this figure is reflected in the further fact that military expenditure on the North African colonies doubled between 1927 and 1931.

Indo-China is in a different category from the other colonies, and is altogether an asset of very doubtful value to France, as the Left has constantly demonstrated. Its rice trade is almost exclusively in Chinese hands ; its retention necessitates the quite considerable expense of the government subsidy to the Messageries Maritimes for the purpose of maintaining a liner service ; and, owing to the difficulty of communications, it is impossible to defend and of doubtful use as a man-power reserve. The proposal to dispose of Indo-China has been raised at various times in the past ten years, generally as a means of balancing the budget. The most likely purchaser has appeared to be Japan—an admirable customer in the circumstances. For if the Japanese bore the expense of administration, it seemed highly probable that French capital investment in Indo-China could be made to yield a handsome return. At any rate, the cessation, in 1922, of the Anglo-Japanese alliance, and the common hostility of France and Japan to the United States, afforded ground for contact.

Early in 1924 M. Martial Merlin, the French Governor of Indo-China, paid a state visit to Tokio, and was received with royal honours. Whether or not the question was raised of Japan's willingness or capacity to make an offer for Indo-China, it is fairly certain that the published terms of the trade agreement which was signed there are not the whole story. It seems safe to surmise, more particularly in view of the fact that the Japanese Army has now been equipped for some years with Renault armoured cars, that armament arrangements were concluded. And it is equally reasonable to suppose that a pre-occupation on both sides was a pre-war field of French interest—Manchuria—and French financial support for Japanese expansion there.

In 1924, however, it was too early for French and Japanese interests to come to a definite agreement on the subject of Manchuria. But there was an increasing tendency on the part of France to consider the possibilities of an agreement, and it was perhaps inevitable in the end that Manchuria should present itself to the French *rentier* as a practicable new field for the export of capital. To begin with, after 1917 the Chinese Eastern Railway had been claimed by the bond-holders, the Franco-Asiatic Bank, with some show of justice, since Soviet decrees were not operative in Manchuria. The claim had not been abandoned in 1928, when France was in a stronger financial position than any other European power to offer assistance to Japan. Moreover, owing to the growth of the French view that Britain was a declining power, especially in the Far East—the Chinese boycott of British goods in 1925 had contributed to that view—France had few hesitations in pursuing a policy of “finance colonisation” in collaboration with Japan. Finally, in view of the re-assertion of the military party in Japan in 1929, it was obvious that any close link forged between the two countries in regard to Manchuria would elicit Japanese orders for material and equipment from the French armament firms. The conception of Manchuria as a new opening for investments became increasingly attractive to the French big *rentier*.

This is not the place to pursue the subject of Manchuria, or even of recent French loans to Japan. But it may be well, in order to illustrate the effect of French *rentier* pre-occupations from 1924 onwards, to suggest at this point that Japanese aggression on Shanghai in the spring of 1932 was clearly conducted with French approval—though not necessarily with the direct approval of the French government. It is noteworthy, however, that it was on the day following the resignation of M. Tardieu (May 10) that the Japanese evacuated Shanghai. And the strong support of

Japan accorded by the French member of the Lytton Commission is hardly irrelevant in this connection.

It is only owing to the French government's necessity since 1932 for maintaining the prestige of the League of Nations, through which alone France can now hope to control the German claim to re-armament, that French support of Japan with its attendant scheme of capital investment in Manchuria has been temporarily suspended.

French colonial possessions contain adequate areas capable of development, and France is therefore undisturbed by thoughts of territorial aggression. As is well known, however, the French population of 42 millions is a static—or rather a diminishing—one. Against the combined force of the increasing populations of Germany and Italy, which for some years has constituted the obstacle to French military hegemony in Europe, France can draw upon the 30 millions of French Africa and, though far more doubtfully, the 20 millions of Indo-China. Even so, however, the odds would seem to be, in respect of man-power alone, in favour of the combined 63 millions of Germany and the 41 millions of Italy. The importance to France of securing the safety of her colonial communications, the key to which is the route to Marseilles, is fairly evident.

It is here that the Franco-Italian naval problem arises. It has been the dominant factor in almost all European naval conferences since the end of the War. The problem of parity as between France and Italy seems, indeed, completely insoluble.

Italy, in possession of African Tripoli, has designs on the adjacent French territory of Tunisia. (The European population of Tunis, it may be observed, is predominantly Italian: the town has its Italian government schools, in which Italian, not French, is spoken.) Tunisia is of

considerable economic value ; it is rich in phosphates and has developed intensive tobacco cultivation. Here is a particularly menacing point of conflict between France and Italy which illuminates the French anxiety for securing the safety of Mediterranean communications.

A second line of French communications is through Spain. It may be remembered that the visit of M. Herriot to Spain, in November 1932, provoked a somewhat violent anti-French demonstration in Madrid, the cause of which was declared to be the fear that France might involve Spain in a war with Italy. Nevertheless, it is clear that republican and anti-clerical Spain has at present a marked hostility to Italy which may well reinforce an unmistakable sympathy with republican and anti-clerical France. The strategic value of the Spanish Balearic Islands, which are relatively unfortified, has not escaped the attention of France, which is also busily engaged in fortifying Corsica. It is widely believed that the French government has urged Spain to strengthen the fortifications of the islands.

The security of colonial communications is part and parcel of the general French thesis of security. Even allowing for the margin of excess in French demands on this score, it cannot be said that France enjoys either kind of security at present.

This review of French colonial policy may conclude with a note on the crucial problem of France's search for oil. A source of the supply of oil would seem to be essential, in existing world circumstances, to maintain her position as a great power, and a great deal of French colonial effort is therefore dictated by the desire for some such source. It may be recalled that Clemenceau's first appeal to President Wilson, on the entry of the United States into the War, had been for petrol. " Oil is as necessary as blood," he had

written, "in the battles of to-morrow. The safety of the Allied nations is in the balance."

Apart from oil production in Alsace, France is at present dependent for her supplies of oil on both Standard Oil and the Royal-Dutch Anglo-Persian group. (The failure of the promised oil supplies in Poland was a great disappointment.) The purchase of crude oil is controlled by a government system of licensing, and is virtually a private monopoly. (There is a proposal, at the moment of writing, for a completely effective state monopoly in place of the present licensing system, the object being to divert all profits to balancing the budget. But this proposal is chiefly Socialist in inspiration, and action will doubtless be postponed indefinitely.)

The French struggle since the War, and even earlier, for a source of oil supplies has centred in Syria. France's claim to Syria had a historical basis, but it was greatly reinforced by the need for access to the Mosul oilfields. In January 1920 the British withdrew from Syria, and in the following April the San Remo agreement was concluded, by which Syria was given to France as a mandated territory and the French secured a 25 per cent interest in the Turkish Petroleum Company. Immediately afterwards occurred the Syrian revolt, which was inspired, it was suggested in various French quarters, by British interests. The revolt was vigorously suppressed—so vigorously, indeed, that the suppression necessitated the bombardment of Damascus.

In the following year the French hit upon the astute idea of surrendering Mosul to the Turks—a perfectly safe move, it seemed, since Mustapha Kemal was armed by Schneider's and M. Franklin-Bouillon was High Commissioner at Angora. To counter this ingenious stroke of policy, which aimed at securing the Mosul oilfields wholly for France, Mr. Lloyd George committed this country to support of the schemes of Sir Basil Zaharoff, who had proceeded—

through the agency of Vickers—to arm Greece against Turkey. After this venture had proved as unsuccessful as it deserved to be, the conflict between British and French for oil concessions continued in a more transparent guise, until at last, in 1925, the League of Nations awarded Mosul to Iraq—a British mandated territory. The Iraq Petroleum Company, which absorbed the old Turkish Petroleum Company, was granted a concession for 75 years. Britain, the United States and France shared in it, but France received a share of just over 20 per cent, which was entirely inadequate for her purposes. The French defeat was not yet complete, but it was unmistakable. The development of this train of events will be noted in connection with the general economic outlook in France.

French Financial Diplomacy 1927-32

French internal policy up to the moment of M. Poincaré's stabilisation of the franc has already been discussed, and it is now necessary to attempt an analysis of French financial diplomacy after stabilisation. This may be prefaced by a very brief survey of the effect in the foreign field of the internecine struggle in France from 1924 to 1927.

The struggle had cost France dear. In respect of reparations, the initiative had passed, under the Dawes Plan, to the United States and Great Britain. Whereas the official American observer had merely disapproved, without effect, of the Ruhr invasion, there was now an American "agent-general for reparations" in Berlin. In Central Europe, where French influence had been predominant, the financial weight of this country, which had returned to the gold standard, was making itself felt through the League of Nations stabilisation loan policy, admittedly inspired by Mr. Montagu Norman. The League had

adamant in regard to reparations, the official French point of view being that it was precisely the policy of granting loans to Germany without adequate provision for repayment which had driven the Reich to the verge of catastrophe. It suited British interests, however, to revise once again the unsatisfactory problem of reparations rather than imperil British investments in Germany: it was claimed here, not unjustly, that Germany had been enabled to carry on trade and pay reparations only as the result of foreign credits, and that the security of German obligations in this respect must on no account be endangered by political debts. As for the United States, which had achieved its maximum control of German industry by the end of 1928, it was quite obviously her policy to liberate German economy from its obligations to France, or at any rate to press for a lower and *definitive* figure of reparations—the point being that France would otherwise demand increased reparations from a flourishing Germany. In any case, the Dawes Plan had been intended only as a temporary measure of relief and stabilisation. The Young Plan arose, therefore, as an attempt to arrive at a definitive settlement of reparations.

The Dawes Plan had been a serious setback to France. But the negotiations for the Young Plan, sponsored by Anglo-American accord, were an even more serious setback. The French resisted the preliminary negotiations at Paris, which one of the two British delegates subsequently described as a “prolonged agony,” by adopting a purely obstructionist attitude. They continued to offer every conceivable kind of opposition when the talks were resumed at The Hague, where the obstinate rebuff they experienced at the hands of Mr. Snowden cost the Bank of England a large quantity of gold. The weight of American and British financial interests was, however, too great to be withstood, and France, sorely against her will, accepted the necessity

for evacuating the Rhineland and the practical financial details of the Plan. The scheme for the appointment of the Bank for International Settlements was approved, and, after prolonged bickering, the choice of a home for it fell upon Basle. An American filled the post of chairman, but the actual management of the bank was handed over to M. Quesnay, a French official of the League.

For the next two years, France was engaged in a struggle—an uphill struggle in spite of all favourable circumstances—to assert her power and to achieve political ends by financial means. The prevailing economic depression, aggravated by the sudden collapse of American prosperity, provided excellent opportunities. The full effect of the devalued franc now became apparent. Both because the effect of the devaluation of the franc was so far-reaching, and because recent events in the United States exhibit a somewhat similar course of tactics, it should not be forgotten that this was the first case of deliberate devaluation in post-war history. France, at any rate, was the only country in the world in 1929 which remained impervious to the depression and which was not weakened by unemployment. And Paris was the only financial centre to which the depressed countries could turn for assistance. By its foreign lending policy, indeed, Paris controlled world policy. For by exploiting the financial difficulties of other countries, and by moving French exchange deposits from capital to capital, the Paris banks were in a position to exert enormous influence abroad and to retrieve for France the supremacy she had seemed to lose. Throughout the whole period from May 1927 (not merely from June 1929, when the Young Plan was signed) to September 1931, when Britain suspended the gold standard, withdrawals of gold from London coincided most remarkably with moments of acute tension between the British and the French governments.

This form of financial warfare between the two countries

came to a head, in May 1931, with the shock caused by the Credit-Anstalt affair. In that month the Austrian government announced, to the general dismay, the impending reconstruction of the influential Credit-Anstalt Bank, owing to its recent heavy losses. The bank, which was closely associated with the Viennese house of Rothschild, enjoyed high credit in London banking circles on account of family connections, and it was in London that the dismay was most evident. It was clear that the bank's difficulties had been brought to a point of crisis by unexpected foreign demands for the repayment of credits. It was no less clear that some at least of the principal creditors were French. The Austrian government's announcement of a loan issue of 150 million schillings to cover its share in the deficit of the Credit-Anstalt left this country with little choice of action. The Bank of England, owing to the situation in Germany and the smallness of its own gold stocks, was unwilling to take over the whole loan. But the Bank of France responded to the announcement with an offer to participate in the loan on political conditions, notably that Austria definitely abandon the proposed Customs Union scheme with Germany.

The French objection to this scheme, which is considered elsewhere, was understandable at a glance. Apart from the unpleasing prospect of an eventual absorption of Austria into the German Reich, the proposed Customs Union imperilled at the start M. Tardieu's ambitious project of a Danubian Confederacy, which was designed to salve the bankrupt agricultural allies of France in the Balkans by a tariff union of Rumania, Yugoslavia and Czechoslovakia with Austria and Hungary. At any rate, France was anxious at all costs to defeat the Austro-German scheme. The Bank of France's attitude in the matter was an unusually candid demonstration of the use of financial pressure for essentially political purposes.

The Austrian government refused to yield to the French terms, and the Bank of England stepped in with a new offer to provide the whole of the £5,000,000 required. Family connections played their part here, but it was clear that British intervention was due to financial and industrial considerations, and was not designed in support of the British Foreign Office : it was, above all, protection for the British creditors of the Credit-Anstalt that was sought. It is not less clear at the present day that the Bank of England did not fully realise the political implications of its action, which—like so many other features of its policy in the past ten years—cried aloud for Parliamentary control. There were immediate repercussions to the Bank of England's move, which was resented with fury in France. The relations between the Bank of England and the Bank of France grew openly hostile, and there were large withdrawals of gold from London. " I love France, but hate its Bank," is a remark attributed to Mr. Montagu Norman.

There followed the chain of events which included the financial breakdown in Germany and which culminated in the British suspension of the gold standard. Here it may be sufficient to note that Britain was compelled, in September, to demand the repayment of the loan from Austria, which was likewise compelled to accept the original French offer on French terms. As with Austria, moreover, so with Hungary, which was likewise forced to accept a French loan on stringent political terms and on conditions which signified the removal of British and Italian interests from the conduct of affairs. Thus, after two years of intensive financial effort, France, barren though her victory was soon to prove, had regained the lead in European affairs.

The United States alone had remained outside the French sphere of control, but French financial diplomacy was not content to stop short at this country. The turn of the United States, whose financial position was no less " vulnerable "

in the spring of 1931 than that of Britain, to feel the weight of French financial power was not long delayed. The impending collapse in Germany, of which the United States was by far the largest creditor, was reflected in the instability of the American banks, and the French appreciation of the position was soon to be expressed in vast withdrawals of gold from New York. In the meantime the proposal of a year's moratorium on inter-governmental debts announced by Mr. Hoover on June 20 (after international debt payments had been made on June 15, it may be noted) was given a lukewarm and even chilling reception in Paris, and thus failed to restore confidence and avert the crash in Germany. The entire virtue of Mr. Hoover's proposal lay in the necessity for carrying it into immediate effect. By July 6, the date of France's official acceptance of the moratorium, the overstrained financial structure of the Reich had tumbled.

Only the briefest summary of French policy from this point onwards is possible. Following upon the turn of events in Britain and strong French pressure upon the gold reserves of New York, M. Laval, in October, sailed to the United States and returned from Washington with the agreed statement that, while the moratorium continued, Mr. Hoover's Administration would not again take the initiative in regard to revision of war debts and reparations. On his return, M. Laval opened negotiations with Germany, insisting—as agreed in the Hoover-Laval *communiqué*—on the Young Plan as a basis for conversations. France, in fact, was still asserting the priority of political debts. The negotiations with Germany continued fruitlessly, and meanwhile the expiration of the six-months' "standstill" agreement for all short-term credits to Germany, which had been effected by the Wiggin Committee of the Bank for International Settlements in the previous August, drew nearer. The standstill involved the sum of 5,360 million

marks (£268 million), and Britain and America, in whose interest it had been made, endeavoured by every possible means to bring France into a conference to review the entire field of reparations and international indebtedness—a conference that was implicit, indeed, in the terms of the Hoover moratorium. French delays were ingenious and exasperating. In January, M. Laval offered Dr. Brüning concessions in regard to the payment of reparations on various political conditions, among them the abandonment by Germany of the construction of the second pocket-battleship—an offer which neither Dr. Brüning nor anybody else in Germany dared to accept. In the same month the standstill agreement due to expire in February was prolonged until March. Still the French avoided committing themselves to an international conference, indulging in protracted and acrimonious argument regarding the choice of *venue*. British and American persuasions grew more vigorous, and at last, on May 10, the elections were held in France. The new French government gave consent to the Lausanne Conference. The delegates assembled there on June 16 and eventually reached agreement on July 9. As the result of the Lausanne agreement, Germany ceased payment under the terms of the Young Plan, and a vague scheme for creating a bond issue of 3,000,000,000 gold marks through the Bank for International Settlements was substituted for a final settlement of reparations. After a year's delay, during which conditions in Germany had reached a stage of complete collapse and there were few prospects of obtaining anything at all from her, France found this agreement acceptable. The hope of a complete cancellation by America of war debts was clearly a bait dangled before French eyes.

But it was M. Herriot, not M. Laval, who conducted the French case at Lausanne. The parties of the Right, for very good reasons, had suffered a sharp reverse at the general elections.

Prospects and Economic Outlook

The French elections of 1932 were in a sense a repetition of the elections of 1924, and the results revealed a similar point of view of the electorate. They expressed popular dissatisfaction with France's foreign entanglements. M. Poincaré, and M. Tardieu after him, had been pre-occupied with policies in Central Europe and the Far East which had only too plainly failed to realise their promise.

There had also been a banking crisis in Paris. The fall of agricultural commodity prices had made it impossible for the countries of the Little Entente to meet their loan services, and France had suffered accordingly. From 1929 to 1931 there had been no change in the French policy of making loans to Rumania and Yugoslavia, as well as to Poland. The loans were essentially for armament purposes, despite the fact that these countries were in the grip of an unprecedented agricultural depression. Although, on the whole, they were not taken up by the mass of the French *rentier* public, which had become increasingly wary of foreign investments, the banks and financial houses which were left with the loan issues inevitably made use of the *rentiers'* deposits. When, therefore, this entire loan policy broke down in 1931, an electoral swing-over to the more domestic policy of the Left was inevitable. It was facilitated by fear that the *débâcle* of the Disarmament Conference would destroy the prestige of the League of Nations (to maintain which French support of Japan was temporarily withdrawn), and thus permit German re-armament. In spite, then, of M. Millerand's confident assertion that the murder of President Doumer was the work of the Bolsheviks, the Right experienced a sharp defeat in May, and another amorphous coalition of Left and Centre groups dominated the Chamber with M. Herriot as Premier again.

M. Herriot, having consented at Lausanne to forgo all

payments from Germany on account of reparations, once more found himself involved in budgetary difficulties, which were sharply complicated by the problem of debt payment to America. Unable to balance the budget without either a drastic reduction of military expenditure or default on the December payment to America, he resigned when the Chamber, having adopted the motto, "No reparations, no debt payments," voted default. M. Daladier became Premier—an improvised appointment. And M. Tardieu emerged again into the light after a virtual disappearance for six months, during which time he would appear to have made a first-hand study of the Fascist régime in Italy. There is more to be said on this subject.

M. Daladier's government encountered rumours of a franc crisis and the problem of maintaining or departing from the gold standard. The French Treasury negotiated with Lazard Frères a credit of £30 million to strengthen the franc exchange. Officially the Bank of England had nothing to do with this loan. But the Exchange Equalisation Fund approved of it, and was ready to assist in maintaining France on gold—it is evident that the Bank of England has become more politically minded of late. The most recent of other French economic schemes is a "French Ottawa Conference" to develop France's colonial empire. For the rest, the meagreness of French hopes in regard to the World Economic Conference has been well justified.

So far as the immediate future of French policy at home and abroad is concerned, it may be best to take a general view of some of the economic factors involved. As has been suggested, the economic motives which guide a state in the modern world are far more permanent than is generally supposed. There are few dramatic breaks in French policy since the War, and almost all the contemporary problems of French foreign relations are implicit in French demands at Versailles in 1919.

The first factor to be considered is oil. The Iraq Petroleum Company began drilling in April 1927, but progress was very slow. This was owing to the entirely changed position of the oil industry generally, which was soon characterised by huge over-production and a marked fall in price. The apparent refusal of Britain to open up the oilfields was interpreted in France as an attempt on the part of Anglo-Persian and Standard Oil, the former more particularly, to maintain a relatively high price from French importers. In reality, the crucial problem of the Iraq scheme, which necessitated a huge capital outlay, was one of successful financing. In the existing circumstances of world over-production, only French political motives could justify the continuance of the scheme. Moreover, the French demand in regard to the vexed question of control of the pipe-line was an added complication, which was straightened out only when Britain, in July 1932, renounced her mandate over Iraq, and Iraq duly proclaimed itself an independent kingdom under Feisal. Since it was henceforth dependent for its state revenue on oil royalties, and was thus anxious to expedite production, the French were enabled to enlist support for their scheme of constructing the pipe-line with a double outlet to the sea, one at Tripoli (Syria—a French mandated territory), the other at Haifa (Palestine—a British mandated territory), the line forking at Haditha, in the midst of the desert. The pipe-line is at present in actual process of construction, and is due to be completed in 1934.

All would seem to be well, and France would appear to have gained her ends by this arrangement. Looking ahead, however, one foresees trouble. This pipe-line in action would not only satisfy the greater part of France's petrol needs, but would, in all probability, also close the Anglo-Persian's market in the Mediterranean, which is the only important market it possesses at present. Hence the alarm of the Persian government, and the onerous terms, including

guaranteed royalties, of its new concession to the Anglo-Persian company. There are possibilities of international friction here, and France can hardly be unaware of them.

Again, competition seemed likely to be greatly intensified by the formation of a new oil company, Mosul Oilfields, representing independent Italian, German and British interests, and from which France had been entirely excluded. There was a distinct possibility that the French advantages of the outlet at Tripoli would be menaced as soon as they were secured. But this has been met by the very recent and enormous French loan of 50 million (Turkish) pounds to Turkey for armaments. The loan, granted by the Schneider bank, would seem to aim at eventual French control, through Turkish agency, of the source of supply of the Mosul Oilfields Company, and at the destruction of Italian hopes in Anatolia.

French prospects in regard to oil have been treated here at a little length because of their intrinsic importance, but also because they illustrate the international ramifications of national economic problems in the modern world.

The second economic factor which must shape French foreign relations at this juncture or in the immediate future turns on world conditions generally, but has its central aspect in the growth of unemployment in France. The French government has been able to put some check upon the rising tide of unemployment by repatriating Italian and Belgian labour imported during the period of wide industrial expansion. But there would seem to be no other national means of coping with the problem. A steady and perhaps a rapid increase of unemployment seems inevitable. A lack of budget funds is not the least serious obstacle to the stimulation of employment by heavy armament expenditure, which might otherwise prove a way out. Again, French agriculture, the depression apart, has been badly

hit by the new tariff policy of this country and by British attempts to revive home agriculture. Yet again, France is almost certain to suffer during the next few years from a continued lack of foreign tourists, and the combined effect of the collapse of the tourist industry and of the luxury trades must make itself increasingly felt in a reduction of employment. (It is significant in this connection that every French casino is now in possession of a gambling licence.) All these factors—failing drastic international change—are likely to become exacerbated in the near future.

The resulting social discontent finds no outlet. It is bound to increase, moreover, and it is bound to assume the form, amongst others, of sharp political antagonism to the banking interests in Paris. It is unusual at the present time, despite the revolutionary tradition in France, to canvass the prospects of revolution there, but the theme may acquire a measure of popularity at no great distance of time.

The financial outlook in France, as in most other countries, is linked up with the problem of the gold standard. It is clearly to French interests that Britain should return to gold. That is vastly more important, from the point of view of France with its enormous and almost useless stocks of gold, than even the removal of tariff barriers hindering French agricultural and other exports. The return is, perhaps, imperative if France is to survive as a great industrial power. In the meantime, banking interests in Paris are confronted with an internal crisis, owing to the lack of markets for capital and the renewed peril to the franc. The Bank of France is anxious to remain on gold, and the Bank of England appears no less anxious that the Bank of France should remain on gold. Whether that is possible remains uncertain. The French financial crisis is at any rate incapable of solution under the existing system.

The French Centre groups would certainly be prepared to make direct economic concessions in Rumania

and Hungary, for instance, the effect of which would be to "unfreeze" British assets there and set trade flowing, in return for the British restoration of the gold standard. Nor is that all. They would almost as certainly be prepared to make considerable political concessions—in the sphere of disarmament and of French support of the Little Entente in particular—in return for that benefit. French opinion, however, would seem to be somewhat sceptical of British support, and France has wasted no time in re-opening relations with Soviet Russia. Here, of course, the end in view is not merely to develop mutual economic advantages (which are shadowed forth by the negotiations for a trade agreement), but also to maintain guard on Nazi Germany's eastern flank and thus to revive the old Franco-Russian alliance.

Meanwhile, however, there is one aspect of contemporary French politics which the foreign observer would do well to note for the future. M. Tardieu's reappearance on the political scene has been characterised by proposals for far-reaching changes in the French Constitution. He has urged the disadvantages of four-year elections and the national dangers resulting from the pressure of the voter on Deputies. Finally, he favours the formation of a Directory, consisting of members of the Senate and prominent industrialists. These proposals of M. Tardieu have elicited favourable comment from M. Franklin-Bouillon, who has set to work to organise a new French party. The situation is not without interest. France, it is true, is overwhelmingly republican in sentiment, and the scheme for a Directory may well have to be modified. But uncertainty on that score should not prevent M. Tardieu's proposals from being developed, and, in their developed form, from making their mark on the foreign policy of France within a reasonable period of time. It is here, indeed, that the next new move in French international relations may be anticipated.

French prospects in general are gloomy, since there appears to be no practicable method for preventing German re-armament. All shades of opinion in the country are hostile to the idea of German re-armament, the Socialists being no less patriotic in this respect than the Right. But the combination of Germany and Italy is intimidating, and the prospect of a repetition of the defeat of 1870, followed as then by violent internal convulsions, paralyses the French mind, which is now being forced to accustom itself to prolonged strikes and increased violence. A repetition of the Commune, in fact, looms large in the imagination of a considerable section of France at the present day. It may be fitting to conclude this economic outline of French post-war history by remarking that the Bank of France, in the design of its recently completed new building, has anticipated this contingency.

CHAPTER III

POLAND AND THE LITTLE ENTENTE

POLAND :

The New State

POLAND emerged as a national state in post-war Europe under the ægis, so to speak, of President Wilson's doctrine of self-determination for subject peoples. The doctrine spelt, in this case, an attempt to resurrect an ancient kingdom without any corresponding attempt to ascertain its economic ability to survive in the totally different conditions of the modern world.

National fervours and ambitions had never been extinguished in Poland, but the success of Polish claims after 1918 was largely owing to French support. A new state on the eastern flank of Germany provided France with a new ally against Germany and an alliance to replace the old Franco-Russian *entente*. The creation of Poland also served French ends in respect of M. Clemenceau's policy of drawing a *cordon sanitaire* against Russia and thus disinfecting Europe against the spread of Bolshevism. Created in the likeness of a military buffer state, Poland was not without its attractions to France as a market for the export of capital—a substitute for the lost Russian market.

Accordingly, the Banque Franco-Polonaise was formed in 1920, in which year the Schneider group, in association with the firm of Vickers, founded the Société Polonaise de

Matériels de Guerre, designed as part of a general scheme of securing control of armament manufacture throughout Europe. (The development of the port of Thorn, on the Vistula, was also undertaken by Vickers.) The military economic alliance of France with Poland was given formal political expression in March 1921, and in the following May the Polish-Rumanian alliance completed the *cordon*.

French protection of Poland was not achieved, however, without difficulties. The problem of settling Poland's frontiers, which had been shelved at Versailles, proved particularly troublesome. German wishes counted for little, and Russia, after her virtual defeat by Poland in the war of 1920—the Polish military staff enjoyed the advice and collaboration of General Weygand, Foch's chief of staff—was a negligible factor. But there was considerable tension on the score of Poland's frontiers between France and Britain, owing to this country's fear of Polish exploitation of Scandinavian markets, particularly in regard to coal exports. This gave great weight to the question of Polish access to the Baltic and the possession of Danzig. France demanded its inclusion in Polish territory, Britain resisted the demand, and a compromise was eventually found in the creation of a Free City of Danzig under the jurisdiction of the League of Nations and in the award to Poland of the adjoining strip of coast. The resulting "corridor" effectively separated East from West Prussia, and produced the bitterest item of German-Polish discord. There remained the question of Silesia, which was of great industrial wealth, and, although the scene of pronounced ethnic confusion, predominantly German in population, as a plebiscite demonstrated clearly enough. The League, however, chose to award upper Silesia, the industrially valuable area, to Poland, permitting Germany to retain the rest. There was a large exodus of the German population of upper Silesia into German territory, and German

Silesia, cut off from upper Silesia, its economic partner, faced severe difficulties.

French backing for Polish aspirations continued. The refusal of the Free City of Danzig to admit French munitions *en route* to Poland caused the Schneider interests to urge the creation of a new port (Gdynia) on Polish soil. In 1923 there was a French loan to Poland of 300 million gold francs, to convert all Polish indebtedness for munitions ; and, in July of the following year, which saw the visit of General Foch to Poland, a further loan of 35 million gold francs, for the special purpose of harbour construction at Gdynia, was advanced by the Schneider group, which also obtained, through the Société des Constructions des Batignolles, the contract for the work.

Polish progress was satisfactory to France, which gained military support and industrial contracts as a consequence. It was less satisfactory to Poland, which experienced hardship and difficulty in giving birth to a new national economy. The old economic life of Poland had been closely associated, on the industrial side, with the rest of Russia, which absorbed its textiles ; on the agricultural side with Germany. The first of these markets was now closed to Poland for directly political reasons ; the second was partially closed for reasons which were in substance not less political. Further, the new state was heavily burdened not only by its increasing liabilities to France for military equipment and construction, but also by indebtedness to the United States for food supplies and other necessities provided after the cessation of hostilities, and to Great Britain for raw materials for the Polish textile industry enabling the latter to resume production after the War. The collapse of the mark during the occupation of the Ruhr seemed to be the last straw, since it threatened to drag the Polish currency along a similar path of inflation.

The autumn of 1923 was marked by severe unemployment

and riots. Proximity to Soviet Russia simplified Communist propaganda, and there was a distinct possibility of a resumption of the Soviet-Polish war of 1920. The threat of war seems to have induced this country, doubtless in support of its suspicion of French policy, to send an economic adviser to Poland. Sir Hilton Young, whose arrival in Poland coincided with a general strike in Cracow and Lodz, the latter the principal textile centre, advised the creation of a Bank of Poland and a new currency. Nothing was done, however, and the effect of the bad harvest in aggravating economic distress in the country became increasingly apparent during the new year. Matters took an alarming turn with the victory at the French elections of M. Herriot, who had recently joined in an international protest against the Polish treatment of German and Ukrainian minorities. Polish fears were only partially dispelled by M. Herriot's official reassurances.

Finally, a loan was contracted in Italy for 400 million lire on the security of the Polish tobacco monopoly and in exchange for coal exports. This appears to have stimulated American financial interests in the course of their ever-widening search for borrowers. A United States loan of 50 million dollars—at 8 per cent—was promised. But the economic alliance of the United States with Germany, or rather the financial invasion of Germany by the United States, was entering upon a developed stage at this time (the beginning of 1925); and, when German industrial interests, already engaged in a tariff war with Poland, proceeded to place an embargo on Polish imports, the American bankers, with appropriate caution, withheld more than half of the promised loan. The situation in Poland became desperate with the revival of the Ruhr and the intensive German competition for coal exports with its inevitable fall in world coal prices. By the autumn an unparalleled economic crisis existed in Poland. As the result of the

threatened collapse of the franc, France—even if the French government in power had shown any anxiety to help, which it did not—was powerless to come to the rescue.

The Dictatorship

The Sejm (the Polish Parliament) proved incapable of coping with national problems. Consisting of a multiplicity of small groups constantly warring with each other and far more concerned to allot blame than to seek a constructive policy, it was almost impossible to create a working majority from among them. The socialist groups combined to urge a scheme of agrarian reform, which involved the partition of the largest estates, and advocated a reduction of the military estimates ("cuts" in the pay of officers, etc.) and increased taxation for the purpose of effecting a 10 per cent increase in unemployment payments. Schemes of this kind were scarcely suited to the circumstances. In the spring of 1926 the makeshift "Cabinet of Social Peace" fell, and it was the turn of Marshal Pilsudski, who was nominally in retirement, to take a hand.

"I enter," he announced in his proclamation, "on a struggle against evil that corrodes the state. . . ." The struggle was brief. There was street fighting, Warsaw was occupied, and the success of the Marshal's *coup d'état* was assured. "There must be a moral renaissance," he announced, "with respect for law and social justice." This, he explained, meant that private initiative must be encouraged and that the government would interfere only when interference was indispensable. The explanation was, indeed, to the point. Nominated as President, he declined the honour, since the President's executive power in a democratic régime was inadequate for his purpose, and chose instead to become Premier, investing that office with greatly extended authority. As President there was M.

Moscicki, head of the government chemical factories, and as Minister of Commerce there was M. Kwiatkowski, prominent industrialist, who became the most active member of the new Cabinet. A vigorous attempt was made to stimulate economic life. A new agreement with the Schneider concern, designed to expedite work at Gdynia, was concluded, and a government credit to agriculture of 20 million zlotys enabled landowners to pay off part of the mortgages. Heaven-sent aid appeared in the form of the coal lock-out in Britain, and Polish coal exports in June 1926, totalling 1,400,000 tons, were exactly double those of the previous month.

In these circumstances American eyes were once more directed to Poland, and Mr. Kemmerer, an American financial expert, was sent to Poland to proffer advice. Not the least important result of the advice tendered was the acquisition, by the Harriman interests, of the Giesche zinc and lead properties in upper Silesia, the largest individual unit of production in the world, accounting for 10 per cent of the total world output. Polish electrical concerns were likewise taken up by American interests, textile interests—the Tomaszow concern, for instance—being reserved for this country. By September 1927 unemployment had dropped by one-third, partly as the result of a Polish-German commercial agreement furthered by American influence. Poland's chief reward, however, was an international stabilisation loan of 72 million dollars, of which by far the bigger part was raised in New York.

The political expression of these economic changes, however, was markedly belated. The President had been granted power to govern by decree, but the Sejm was still recalcitrant. There was still, in fact, no real central executive authority. A proposal to make Pilsudski King of Poland met with some enthusiasm, but was not favoured by the great landowners, whose interests did not materialise.

differ from those of the East Prussian Junkers and who desired a moderate and even friendly attitude towards Germany. The political aspect of Pilsudski's *coup d'état* was indeed confined for some time to a severe Press censorship and the adjournment *sine die* of the Sejm, although sections of the latter continued to hold illegal meetings.

Early in 1928, however, a group of leading industrialists, in preparation for the elections, issued a manifesto urging strong support of Pilsudski in his fight against "anarchy." The manifesto received the blessing of the Catholic Church, which saw in the Marshal a doughty fighter against Communism. It also met with the approval of the influential landowners, who had no desire to further the cause of agrarian reform. Pilsudski himself, after the Sejm had revealed significant irregularities in the government finances (about one-fifth of the budget had not been presented to the Sejm), threw himself into the elections with an appeal for moral and political regeneration, the cultivation of a sense of civic duty and national discipline, etc., etc. The elections, which were marked by gross government interference, were a personal triumph for him, but the actual result gave the Sejm an anti-Pilsudski majority. The Marshal thereupon resigned the Premiership, abandoned the Sejm as "a sterile, jabbering, howling thing that made the very flies die of boredom," and contented himself with the part of War Minister, though not without first proposing a new constitution, by which the President held executive power for a period of seven years and individual liberties were restricted in the interests of the state.

The struggle for this new constitution found expression in the War Minister's complete assumption of the mantle of dictator and in the attempted armed *coup* in the Sejm lobby of October 1929. As the world depression overtook Poland, the dictatorship grew more extreme, and was

characterised by repressive measures directed against the Ukrainian minority. In September 1930, prior to the elections, the leading deputies of the Opposition were arrested—again with a view to “overcoming anarchy.” The move was remarkably successful. The elections provided the War Minister with a clear majority, by means of which he proceeded to establish a perfectly legal dictatorship. Up to the present moment, however, the details of the proposed new constitution have not been issued.

The Future

The economic plight of Poland, caused in the first place by the severe drop in agricultural prices, has steadily worsened since 1929. There is great unemployment in the textile industry, which struggles vainly with world overproduction of artificial silk. Polish coal exports, which were maintained by a high internal price, are steadily diminishing, Britain having regained much of the Scandinavian market through her depreciated currency and the conclusion of reciprocal trade pacts with Denmark, Norway and Sweden.

The most threatening feature of Polish finances is, of course, the continued huge military expenditure. Official figures are a most unreliable guide to the total cost, since important items of military upkeep are included in the budget estimates under highly misleading headings, and a great part of the foreign loan service really consists of payments for armaments. The official military estimates absorb anything from 28 to 35 per cent of the budget, but the total expenditure is certainly not less than 40 to 45 per cent and has been calculated to be as high as 65 per cent.

The growth of German power, the threat to the Corridor and Nazi agitation in Danzig have between them hastened the completion of Gdynia, and the double railway track

from Silesia to Gdynia (due to be completed during 1933) is now in actual use, both achievements having been made possible by a further loan from the Schneider interests, in 1931, of 1,000 million francs. The railway is of considerable strategic importance. Nevertheless, it is well to bear in mind that Franco-Polish relations have become perceptibly cooler in recent years, owing to the agricultural depression and the consequent inadequate return on French capital investments in Poland, and also to the growth of nationalist sentiment there. The change of attitude has become even more marked since the French elections of 1932, and was reflected plainly enough in the retirement of M. Zaleski, the Polish Foreign Minister, in favour of Colonel Beck, the representative of a more nationalist and independent line of action. Even more significant, perhaps, was the conclusion of a pact of non-aggression with Soviet Russia, which was inspired, on the Polish side, by something more than the hope of regaining the old market for textiles. For the rest, the immediate danger to Poland seems to arise from the position of the German and Ukrainian minorities, which have close associations with Nazi Germany. Labour unrest and the growing force of Communism in Poland are further factors of immediate significance.

Finally, Poland's community of interest with the Little Entente is vastly stronger to-day than it has ever been before. An agrarian congress at Warsaw in August 1930 paved the way for a new orientation of Polish policy, in which the value of Gdynia as a port for Czechoslovakian industrial exports, and of communication from Constantza and Galatz to the Baltic for Rumanian wheat and oil, is at present a factor of decisive potential importance. The recent history of the countries of the Little Entente will help to illuminate the present position of Poland.

THE LITTLE ENTENTE

Czechoslovakia, Rumania and Yugoslavia, the states of the Little Entente, are the creation of the Peace treaties, which were designed to secure the liberation of subject peoples. Within their existing frontiers, however, these new states have to contend with serious minority problems. The actual determination of frontiers was, in fact, influenced less by ethnic considerations than by the desire to weaken Austria and Hungary by depriving them of their essential economic resources. Thus Austria was despoiled of its chief industrial areas, which were awarded to Czechoslovakia, and Hungary was robbed of the fertile Transylvanian plain and the heavy industry of the Banat, both of which were given to Rumania. A vastly inflated Serbia was the chief ingredient of Yugoslavia, in which Montenegro, in spite of her support of the Allies, was completely submerged. Austria and Hungary, it may be said, were so successfully debilitated in this process of re-creation that their continued existence has given rise to many of the most important diplomatic and political issues of the post-war period.

France, determined to prevent the revival of the Central Powers, took the leading part in establishing the treaties by which the new states came into existence, and the latter, so unstable in origin that there were strong possibilities of their going Communist, naturally looked to France for political support. As has been indicated, France repaid herself for such support with notable economic privileges. From the military point of view, the Skoda armament works at Pilsen (Czechoslovakia), formerly the chief arms factory of the Austro-Hungarian Empire, was the key factor in central and south-east Europe. The Schneider group having obtained control through the Union Européenne, the next step, so far as French interests were concerned, was to provide adequate military protection for the new frontiers.

As a consequence, between 40 and 50 per cent of the annual budget of these countries has been devoted to armament expenditure.

Czechoslovakia

Czechoslovakia is a somewhat incongruous union of the advanced industrial areas of Bohemia with the extremely backward agricultural territory of Slovakia. The conflicting interests of these two regions provide the dominant theme of Czechoslovakian internal politics.

The acquisition, at an extremely low capital cost, of a highly developed industrial region enabled Czechoslovakia to become one of the important industrial powers in Europe, and before the era of tariffs Czechoslovakian goods penetrated to all parts of the world. New supporting industries sprang up, of which the famous Bata boot factory at Zlin, where American mass-production methods were adopted with conspicuous success, was an outstanding example. After 1925, however, the revival of Germany threatened Czechoslovakian economic development, and the general world movement towards tariffs instituted in 1928 marked the beginning of the end of the country's industrial prosperity. The level of unemployment thenceforth rose steadily. The year 1930 was characterised by numerous insolvencies, and unemployment in 1932, which was the first year in which Czechoslovakia's foreign trade showed an adverse balance, reached the figure of three-quarters of a million, which was almost double the previous year's figure.

Politically, Czechoslovakia is unique in that it has retained its democratic régime, under the Presidency of Masaryk, without any alteration since the proclamation of the republic in 1917. A Fascist movement of sorts has become prominent since 1926, and Communism exerts a powerful and growing influence; but neither has so far

constituted a grave threat to the existing democratic order. Whether Parliamentary government in Czechoslovakia will survive in face of the deepening depression in the country is a matter of lively interest. The development of the social services and the extension of the co-operative movement have helped to secure relative political calm, but it is highly doubtful, in view of increasing difficulties, whether the existing scale of the social services can be maintained much longer.

Rumania

Rumania was rewarded for her wartime suffering with rather striking generosity, and the extent and fertility of the Transylvanian plain have given her an enormous grain-exporting capacity. Of scarcely less significance is the fact that, apart from Soviet Russia, Rumania is the only important source of petrol in Europe, being fourth in the world's list of producing countries.

Governed by the Bratianu "clique," intent on industrialisation and high protection, Rumania, which possesses little native capital, has inevitably become a cockpit of intrigue for competing foreign interests. The powerful influence of pre-war Germany has been temporarily eliminated, but French, British and American influence remains. "The goods of the state are as vast as the sea, and he who does not help himself to them is no better than a pig": so runs a Balkan proverb, which epitomises political morality in Rumania since the end of the War. There has been appalling corruption in every department of the state since the example given by the Bratianu brothers, who were less concerned to administer the country than to obtain a maximum share of the proceeds from foreign development. In 1924, for instance, a mining law was passed by which all mineral deposits were declared the property of the state and

all industrial enterprises in the country were bound to conform to two conditions—namely, that not less than 60 per cent of the capital must be held by Rumanians, who must also occupy not less than two-thirds of the number of seats on a company's board of directors. This was a severe blow to the foreign oil companies in Rumania, and strong pressure was brought to bear upon the home government by refusal of foreign—more particularly American—loans.

The retention of the law, however, accounts for the powerful position which independent Rumanian producers enjoy at international oil conferences devised to control world output and price. The biggest of the Rumanian companies, the *Astra Romana*, is controlled by the Dutch-Shell, but its output is a relatively small half of the total Rumanian production; the chief of the remaining companies are the *Romano Americana* (Standard Oil), the *Phoenix* (an independent British company), and the *Steaua Romana*, which is partly French, partly Dutch. The present position is that, oil royalties being an important factor in Rumanian finances, Rumanian and independent foreign producers will not agree to the proposed reduction of output, necessitated by over-production, except in return for a guaranteed price, which is not forthcoming.

For the rest, it may be sufficient to note that the heavy industry of the Banat, notably the Reshitza concern, and also mineral rights in Transylvania, were obtained by Vickers, through Sir Basil Zaharoff, after the War, and a loan of £3 million was granted, in 1921, on the security of the Roumanian railways. French interests, bent on securing armament contracts, have experienced comparatively little difficulty in achieving their ends. The fact that it proved necessary to resort to somewhat barefaced corruption in the process, and that an endless series of bribery charges has been directed against the Skoda works in the Rumanian Chamber, demonstrates, no doubt, the necessity on the

part of all countries for adopting one or other method to achieve their ends.

In the field of agriculture, the policy of splitting up the huge estates of absentee proprietors, adopted partly out of fear of Communist risings, proved unavailing, since the new smallholders were handicapped by an initial lack of capital and were soon heavily in debt. The general scheme of partitioning the big estates has been censured as the chief cause of the agricultural depression in Rumania ; but this criticism would seem to be wide of the mark. It is noteworthy, moreover, that the scheme was carried through with marked laxity, many influential properties remaining quite intact.

These trends of economic development had their political consequences in the changes brought about after the death of King Ferdinand and John Bratianu in 1927, and in the sordid Court intrigues which accompanied the changes. The new lands, especially the valuable Transylvanian peasant holdings, had hitherto submitted to the maladministration of Bucharest, though not always in silence, and now the leader of the Peasants' Party, Maniu, became head of the government under the regency of Prince Michael. Maniu attempted sweeping reforms in the field of taxation, and, in an effort to grapple with the budgetary chaos, largely due to fraudulent accountancy (the Bratianu surpluses turned out to be deficits) and a corrupt tax-gathering machine, stabilised the currency by means of an international loan. The Bratianu clique, however, still controlled the banks, and Maniu was involved in hopeless difficulties. A sustained attack upon the regency necessitated the recall by Maniu, in 1930, of King Carol, whose hostility to the Bratianu interests was a two-edged factor in the circumstances. Economic equilibrium was sought by the sale of the telephone concession to the American International Telephone and Telegraph company (identified

with the Morgan interests) in return for a loan of £8,000,000 and by a loan of 200,000,000 francs from the French Banque d'Acceptation.

These expedients failed for two reasons : first, because of the continued fall in the price of wheat and oil during 1931 ; secondly, because of the strain of steadily increasing armament purchases upon a steadily decreasing national income. The huge Rumanian expenditure upon armaments had a fairly simple logic up to the period of depression. In the first place it followed, naturally enough upon the seizure of Bessarabia, in 1918, from Soviet Russia, this constituting an open sore in Soviet-Rumanian relations which neither country would allow to heal, and which proved the fatal bar to the conclusion of a non-aggression pact between the countries. But Rumania's part in the *cordon sanitaire* against Bolshevism developed, under French stimulus, into an almost mechanical policy of increasing armament expenditure, and the rate of increase was well maintained even in the period of agricultural depression. In 1931, in which year a French government loan of 1,325 million francs effected a partial conversion of Rumanian indebtedness for armaments, Rumanian military expenditure was more than double that of 1925.

The deficit of 1931 was no less than 20 per cent of the total budget. In the face of a crisis of this magnitude the Rumanian government became in all but name a personal dictatorship of King Carol. Under his direction the government, at a loss where to turn for further assistance, pursued commercial negotiations with Germany, hoping to effect an exchange of cereals and industrial products. Unfortunately for Rumania, the negotiations coincided with the highest point of French financial power in Europe. The financial difficulties in which Austria and Hungary were involved had inevitable repercussions among the Rumanian banks ; and the French, who had generously aided

Yugoslavia, allowed several Rumanian banks, including Marmorosch, Blank & Co. (which was closely associated with King Carol's personal interests), to close before proffering any assistance.

This somewhat negative French success did nothing to solve Rumanian difficulties, and it was found necessary to resort to the drastic step of cancelling 50 per cent of all agrarian debts and mortgages. Justified on the ground that the peasantry had accumulated in ten years debts considerably in excess of the value of their holdings—somebody had evidently made handsome profits!—this step precipitated still further banking difficulties. At last, early in 1932, the French banking expert, M. Charles Rist, arrived in Bucharest to report on the state finances, and at once embarked upon proposals for sweeping reforms in the entire field of government administration.

Yugoslavia

Yugoslavia was essentially a strategic creation, effected partly at the expense of Italy, which waited in vain at Versailles for the fulfilment of the promises made to her, on her entry into the War, in regard to Dalmatia and the Adriatic generally. The French had been a powerful influence in pre-war Serbia, in accordance with the pan-Slav policy of the Franco-Russian alliance, and armament and railway contracts with the firm of Schneider, financed through the Banque Franco-Serbe, had figured prominently in the pre-war Serbian economy. British influence had been concentrated in Croatia and was centred at Zagreb. The stability of the new state, consisting of these territories in a greatly inflated form which spelt the destruction of Italian hopes and the obliteration of Montenegro, was imperilled at the start by an abundance of minority problems.

Until the sharp fall in agricultural commodity prices

during 1929, the economic position of Yugoslavia was fairly satisfactory, though the French insistence (in pursuit of France's anti-Italian policy) on armament expenditure greater than Yugoslavia's economic fortunes warranted or could sustain created the usual budgetary difficulties. The capacity of Yugoslavia to distract Italian forces in the event of an attack on France in the Mediterranean became specially significant after 1925, in which year Italy made rapid strides towards recovery. The outcome was the Franco-Yugoslav military treaty of 1927, by which Yugoslavia bound herself to create five new divisions before 1929, the equipment to be provided by Skoda. Armament maintenance steadily increased in the following years, and the burden it entailed as the result of the continued fall in cereal prices aggravated both the economic and political difficulties of the administration.

Parliamentary sanction for the government's policy was withheld by the vigorously recalcitrant Croats, and, in face of further political dissensions caused by excessive taxation to meet government expenditure, King Alexander, in 1929, proclaimed a personal dictatorship. This régime, it appeared, did not commend itself to the French, who feared that the resulting internal political tension might weaken the military value of Yugoslavia in the event of war. The financial crisis in the country, following upon the Austrian collapse in the summer of 1931, elicited assistance from France only on the condition that the King's personal dictatorship ceased. Accordingly, a form of "constitutional dictatorship" was established in September, and in the following month a loan of £2,400,000 was advanced by France. Since then the economic position of Yugoslavia has steadily deteriorated. Strict control of all foreign exchange transactions is maintained, and the country's only hope lies in an agrarian revival based on the kind of guarantee fund proposed, in September 1932, at the Stresa

Conference. So far no steps have been taken to implement the proposals.

The common parentage of France and the dependence on Skoda and on the sanctity of the Peace treaties have naturally tended to weld the three countries of the Little Entente into a political unit. The French General Staff has from the beginning encouraged periodical conferences of military representatives of the three countries, and their foreign Ministers have frequently met for the purpose of discussing united political action. Diplomatic union of the three countries was first formulated in 1920-21 by a series of defensive alliances, but not until 1929, when the last of a further series of alliances was concluded, was the union consummated under the wing of France. It was directed in the first place against Fascist Italy, whose aggressiveness at this stage is revealed in the breakdown of the Franco-Italian negotiations at the London Naval Conference in 1930.

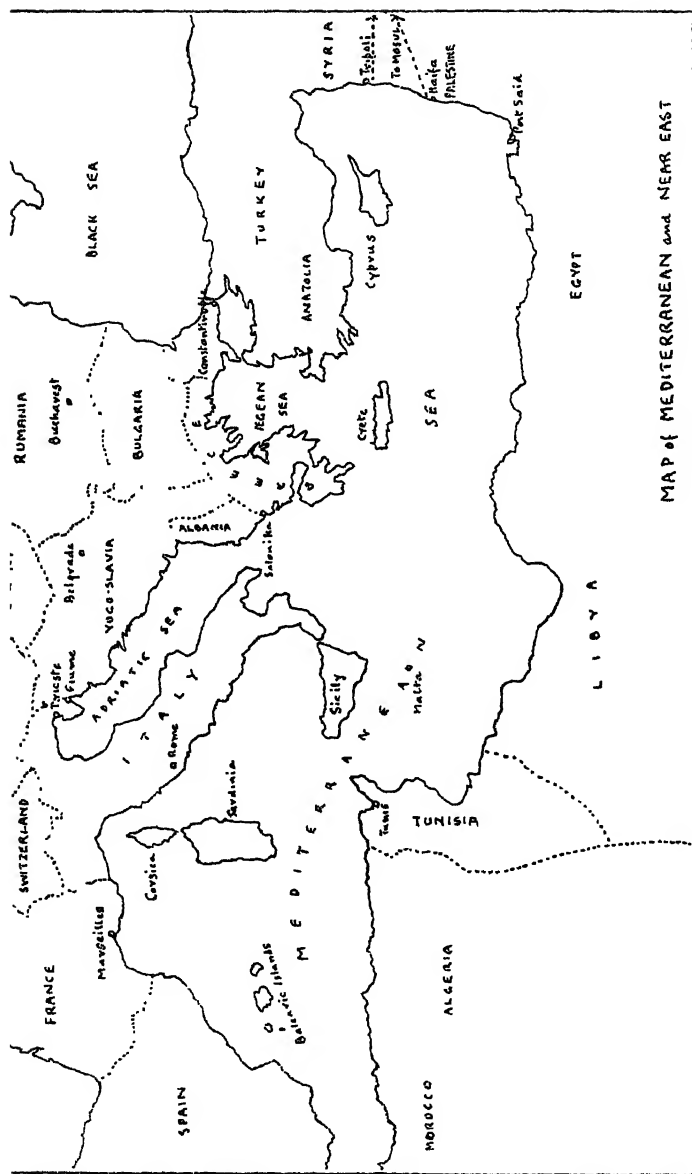
The German scheme of a Customs Union with Austria, first put forward in the early part of 1931, aroused great alarm in Czechoslovakia, one-fifth of whose exports found a market in Austria. Dr. Benes, the Czechoslovakian Foreign Minister, sought a common front with the other members of the Little Entente against the proposal, but met with only half-hearted support, more particularly in the case of Rumania, which disposed of a considerable share of her cereals to Germany. In order to achieve his end, Dr. Benes had to forgo the tariffs on Rumanian and Yugoslav agricultural imports into Czechoslovakia originally imposed to encourage Slovak agriculture. Even after French action had effectively blocked the Customs Union scheme, the problem of Austrian—and Hungarian—markets still awaited a satisfactory solution. M. Tardieu's scheme of a Danubian confederacy, designed as a tariff

union of the countries of the Little Entente and Austria-Hungary, held in the background the prospect of a Habsburg restoration in the latter countries, and the prospect was not of a kind to commend itself to the succession states. Apart from that, the proposed Confederacy was no solution for the troubles of at least one member of the Little Entente, Rumania, which is not really a Danubian country at all, since 90 per cent of her agricultural exports and 75 per cent of her export of oil go to non-Danubian countries, chiefly Germany, Italy, France and Britain. In these circumstances finance was the only weapon France could bring to bear upon Rumania ; and, with the fall of M. Tardieu, in May 1932, and the consequent breakdown of negotiations for the proposed French loan to Rumania, the latter country was obliged to look elsewhere for salvation. This was inevitably a signal to Italy, for ever anxious to counter French schemes. A trade agreement, signed in August 1932, laid Italy under obligations to purchase various agricultural products from Rumania, notably a million quarters of maize in 1933. Unfortunately for Italy, her own maize crop for 1933 has been in excess of her requirements, with the consequence that the imported maize will doubtless be dumped abroad at a loss. Nevertheless, it is possible that Italian aspirations in the Balkans will result in closer commercial relations between the two countries.

The increasing depression in the agricultural Balkan countries and the simultaneous Italian demand for revision of the Peace treaties, ostensibly undertaken in the interest of Hungary, have roused the Little Entente to decisive action. Anticipating the negotiations in Rome for a Four-Power Pact, the countries of the Little Entente, under the guidance of Dr. Benes, concluded a consultative civil and military alliance in February 1933, forming themselves into a new diplomatic entity pledged to a common line of political action and determined, in virtue of a combined

population of 47 millions and the dignity befitting "the fifth great European power," to claim a permanent seat on the Council of the League of Nations when the resignation of Japan takes effect. This new "state" is strongly opposed to treaty revision and has threatened to withdraw altogether from the League if the Four-Power Pact becomes a reality—at any rate in anything like the form originally proposed for it. The latest development in the international relations of the Little Entente—the joint conclusion of a pact of non-aggression with Soviet Russia—is a notable step, it may be remarked, towards stabilising the east European frontier question.

The consultative alliance of the countries of the Little Entente, though weakened by the political instability of Rumania and Yugoslavia, has undoubted advantages for all the countries concerned. Czechoslovakia stands to gain a good deal by a guaranteed market for her manufactures : Yugoslavia and Rumania stand to gain rather less. Rumania is definitely the weakest link. Hence the attempt of Italy, already in virtual possession of Albania, to lure Rumania into an Italian *bloc*.



MAP of MEDITERRANEAN and NEAR EAST

CHAPTER IV

ITALY

ECONOMICALLY Italy is the weakest of the great European powers. Heavy industry—which is concentrated in the north and is very vulnerable to attack from the air—is still of relatively small dimensions, its development having been restricted by the absence of coal and iron ore deposits in Italian territory. To make good these deficiencies, the Italians have carried out extensive hydro-electric schemes, this being the chief source of power in, for instance, the textile industry, which is by far the biggest of Italian industries and which enjoys a large share of the Balkan markets. The other chief export is the motor-car, a distinguished product, the sale of which abroad, however, has been greatly curtailed since 1930 by European tariff restrictions, while the home market is restricted on account of the high cost of imported petrol, Italy being in much the same position as France as regards lack of oil deposits.

Although the greater part of the country has always been given over to agriculture, Italy has not been self-supporting in wheat until quite recently; the “wheat battle” conducted by Signor Mussolini from 1926 onwards proved a more protracted affair than had been bargained for. Final victory on this front, however, is qualified by the annual increase in population of 400,000, which may partly be accounted for by the fact that Italy is the last of the Catholic countries in Europe. Since the old outlets of emigration to the United States, the Argentine, the south of France and French Africa are now largely closed, the

increasing pressure on home economy has intensified the problem of colonial expansion, which is to-day more than ever a dominant issue in Italian policy. The cessation, too, of receipts from Italian emigrants to the United States has become an important factor in Italy's problem of capital and foreign exchange resources. As a nation, Italy lacks finance-capital, having been dependent, before the War, on German-Austrian, French and British financial support, and, since the War, chiefly on American support. But there have also been notable financial contacts in the post-war period with France, especially in connection with the textile industry. These contacts, now that the United States is temporarily out of action, may possibly exert a growing influence on the development of Franco-Italian relations.

Post-War Italy

The present character of Italy's relations to France and to Europe generally is an inevitable legacy of the Peace treaties. Before touching upon Italy's reaction to the treaties, however, it may be well to bear in mind the circumstances of her entry into the War. A member of the old Triple Alliance, she had afforded Germany a field for the penetration of capital, but had also pursued economic interests, typified by railway construction in the Balkans, which clashed with those of the third partner, Austria-Hungary. In the years immediately before the War, Italy's foreign policy, the Triple Alliance notwithstanding, was characterised by co-operation with France against German designs in Morocco, and by a definitely anti-Austrian line of action in the Balkans. The neutrality which Italy maintained on the outbreak of war was overcome by Allied persuasions, culminating, in May 1915, in the secret Treaty of London, by which Italy was promised the Adriatic as a virtual Italian lake and also possession of a

great part of Anatolia, the latter to be wrested from a dismembered Ottoman Empire. It may be recalled that one of the most ardent advocates of Italian intervention on the side of the Allies was the socialist Mussolini, who conducted a campaign to this end from Switzerland, where he was living in exile, through the *Popolo d'Italia*, a journal founded by means of a subvention, paid through the firm of Hachette, from French government funds.

Italy waged war with great difficulty and in the face of what was almost passive resistance to national policy on the part of the Vatican. War conditions permitted the embryonic heavy industry to make huge profits, but were attended by numerous strikes and a mutiny or two, all of which played their part in the rout of Caporetto. Allied aid and the internal collapse of the Austro-Hungarian Empire facilitated the eventual Italian victory of Vittorio Veneto.

The Peace treaties were a disappointment and a humiliation to Italy. The secret Treaty of London was not honoured at Versailles, partly as a result of the extravagance of its promises, but also owing to President Wilson's opposition and French fears of a too powerful Italy. The Adriatic remained an open sea, French hegemony in the Balkans was secured through the creation of Yugoslavia, the coveted share of Anatolia was assigned to Greece, and Italy received no share in the spoliation of the German African colonies. Except for the gain of Trieste and part of the Austrian Tyrol, Italy suffered complete political defeat at Versailles. Although a victor, she is thus in almost the same position as the defeated powers in regard to the Peace treaties, standing to lose nothing by revision and probably to gain much. Her traditional hostility to the League of Nations is founded, to a large degree, on Italian identification of the League with the motives of President Wilson, who has been chiefly blamed for the Italian setback at Versailles. The Fascist régime has steadfastly maintained this attitude

of hostility, or at any rate of distrust, as is evidenced by Italian anxiety to conclude the Four-Power Pact outside the framework of the League. And it is noteworthy that Signor Mussolini has so far shown no anxiety to go to Geneva.

The Economics of Fascism

Italy's political defeat, signalised by the fall of the Orlando government, had grave repercussions in the economic sphere. The war-strained government finances were still further burdened, after hostilities were over, by the necessity for continuing the subsidies to industry and the bread subsidy. The rising cost of living produced serious disorders, which the government had no desire to aggravate by a policy, which was naturally favoured in various quarters, of reducing wages. The spring of 1919 saw a series of strikes and the spread of Communist propaganda in the industrial centres of the north. The new Premier, Signor Nitti, who had always been hostile to the War, threw the weight of the government on the side of the powerful trade unions and against the Army and the increasingly articulate ex-Service associations. But the disorders increased as the amount of distress increased. In the spring of the following year the workers began to seize the factories ; the largest cotton mills were taken over, and metal workers attempted to organise the Lombardy and Piedmont factories on their own account. Later in the year some of the largest of the agricultural estates were forcibly requisitioned by the industrial unemployed.

By this time the government was in hopeless difficulties, which the mutiny among the troops ordered to Albania (where a revolt against the continued Italian occupation was in progress) and D'Annunzio's private seizure of Fiume had done nothing to dispel. Government finances

had deteriorated steadily, the bread subsidy had been withdrawn, and riots and disturbances had taken an even more alarming turn with the growth of a large number of patriotic and militant organisations, of which the nucleus generally consisted of unemployed ex-Service men, members of the impoverished middle classes and university students for whom no occupation could be found. The group that was ultimately to prove the most famous was the Fascio, which had been formed by Mussolini in March 1919. It is worth emphasising that the Fascisti were originally only one of several patriotic bodies of its kind.

The municipal elections held at the end of 1920 witnessed a strong nationalist revival, but also resulted in the formation of a number of Communist Councils. The ensuing antagonism between these political extremes frequently reached a pitch of violence tantamount to civil war, amidst which the government appeared quite powerless. The order of events in the following months, during which the effect of a bad harvest contributed to the general distress and confusion, included a split between Socialists and Communists on the question of tactical collaboration with Moscow, itself an indication of the gravity of the internal economic crisis. The government deficit in 1917-18 (while Italy was still at war) had been, according to official figures, 150 million lire. At the beginning of 1921 (after the exchange had dropped in just over a year from 50 lire to the £ to 100 lire to the £) the deficit had reached the extraordinary figure of 14,000 million lire. The general economic condition of the country was further illustrated at this period by the collapse of the Ilva trust, followed a few months later by the collapse of the Ansaldo trust. These two organisations had dominated practically the whole of Italian heavy industry, and had had important ramifications in shipping, newspapers and so on. Their crash involved the banks associated with them in serious difficulties.

At the general elections held in April 1921 the Fascisti returned 35 members to the Italian Parliament. This success was made the occasion for a Fascist congress, which received strong support from the big industrialists, notably those associated with the Ansaldo group, and from the middle-class opponents of the socialist trade unions. The congress definitely formulated Fascist policy, of which the three significant items were, first, that "the social function of private property" must be recognised; secondly, that no strikes were to be permitted (there had been more than two thousand strikes in 1920); and lastly, that the state must hand back to private enterprise all the undertakings which state organisation had proved "incapable" of running. The congress further proceeded to develop a scheme for the formation of Fascist labour unions.

Throughout the greater part of 1922, Italy was in a condition of practical civil war. This culminated, in August, in a general strike summoned by a Committee of Proletarian Defence, consisting of representatives of the parties of the Left, and in the breaking of the strike, two days after it had been rather half-heartily undertaken, by Fascist detachments. In September, Mussolini announced himself in favour of the monarchy, and in the following month occurred the more or less picturesque Fascist march on Rome. The Fascisti assumed government powers under the monarchy.

They were concerned, to begin with, to adapt their programme to the existing constitution and to rule as a Parliamentary party. "Fascismo" as a theory of government, etc. was entirely an afterthought, and—apart from the persecution of political opponents and the general curtailment of civil rights, both of which were pursued at the start in the name of Fascismo—had no existence, it would appear, in the mind of Mussolini or anyone else in Italy prior to August 1925. The much-vaunted Fascist

philosophy is, indeed, a remarkably slight theoretical structure, and Fascist practice is almost entirely a matter of trial and error and perhaps of hit or miss. It is at any rate purely a product of Italian circumstances, and is subject, in deference to those circumstances, to frequent metamorphoses of principle.

It was the continued deterioration in Italy's economic position, expressed in the continued fall in the value of the lira, which gave rise to the Fascist theory of government. This, like other theories of government, was a decoration, admittedly of an unconventional kind, to the real business of reviving national economic life. The theory received much of its urgency from the concerted attack by the opposition parties, after the peculiarly brutal murder of the socialist deputy Matteotti, on the Fascist régime and the consequent further fall in the value of the lira, in the summer of 1925, to the new level of 150 to the £. Mussolini now chose to come forward with the "disciplinary principle of hierarchy." This somewhat grandiose phrase signified the necessity for order in an Italy which was not wealthy enough to afford the luxury of civil strife. In this Italy "increased and improved production was more important than distribution. . . . Society does not exist for the individual, but the individual exists for society, etc., etc."

The function of the individual in Fascist Italy was accordingly demonstrated by a drastic purge of the Parliamentary opposition, and by the institution of a severe Press censorship. More significant still, prominent industrialists immediately appeared in the Fascist ranks. Count Volpi, a leading figure in hydro-electric corporations, was appointed Minister of Finance, and Signor Pirelli, a cable and rubber magnate, figured importantly in Fascist councils. As a preliminary step towards obtaining foreign funds, a war debt settlement was effected with the United States, in November 1925, on very generous

terms. America cancelled no less than 85 per cent of the total debt, and Italy was further rewarded, in the course of the next year or two, with American loans, chiefly through the agency of Morgan's, amounting in all to \$450 million, a great part of which was advanced in the shape of an Italian Public Works loan.

A brief comment on the entire transaction may be ventured here. American generosity to Italy in the matter of debt settlement is often quoted in favour of a similarly generous settlement of this country's war debts. The United States justified her treatment of Italy on the practical ground of Italy's inability to pay. But it is well to remember that the indirect consequence of the 85 per cent cancellation was the penetration by American electrical interests of the valuable Italian hydro-electrical industry and the handing over of the Italian telephone service, previously a government monopoly, to private exploitation. The point is that American financial and industrial interests reaped a rich reward for the generosity of the American Administration.

It took some time for the effect of American loans to make itself felt in Italian economy. Fascist financial policy inevitably assumed in the meantime a sharply deflationary character, and the hardships that this entailed seem to have inspired the attempt on Mussolini's life in the autumn of 1926. The attempt provided an occasion for the exercise of yet more stringent "hierarchical discipline," one of the results being that the Milan *Corriere della Sera*, the last of the influential opposition newspapers, was forced into the Fascist ranks. Complete Fascist dictatorship, expressed in the absolute authority of the Duce, dates from this point. The lira, which had had an exchange value of 145 to the £ in June 1926, was stabilised at the rate of 92.46 to the £ in December 1927. In 1927 the Fascist labour unions, which had reduced the number of strikes in Italy to zero a couple

of years earlier, were organised into six labour corporations, and the old General Confederation of Labour was formally dissolved. In October 1928 the Fascist Grand Council was absorbed into the Constitution, while in the following year a treaty with the Vatican appeared to give a degree of religious sanction to Fascist principles.

Fascist Foreign Policy

The apologist for Italian Fascism insists that a bellicose nationalism was an urgent need of Italy, which had hitherto lacked national sentiment. Liberalism from England, Radical Democracy from France, Socialism from Germany, Bolshevism from Russia, Fascism from Italy : so runs the apology for Italian aspirations.

Mussolini, from the moment of his assumption of power, certainly adopted a rather high-sounding line in matters of foreign policy, which was as certainly intended for home consumption. His first important venture, which has a not unamusing Ruritanian flavour, was in Albania. This very undeveloped part of the Balkans, only a few hours' sail from the Italian coast, is of strategic importance in closing the mouth of the Adriatic, and is also believed to possess considerable petroleum deposits. The effect of the native rebellion in 1920, which had been encouraged by Yugoslavia, had been to compel the withdrawal of the Italian troops in occupation of the country. In 1924, however, the pro-Yugoslav President of Albania, Ahmed Bey Zogu, had been overthrown in turn in the course of a pro-Italian nationalist rising. Zogu fled to Belgrade, where he recruited an army composed largely of Wrangel mercenaries, financed—according to the Italian Press—by the Anglo-Persian Oil Company. In the following year he regained the Presidency, and the Anglo-Persian obtained the oil monopoly for Albania.

French political and financial conditions at this time did not favour support of Yugoslavia, and Italy seized the opportunity, through the "Italian Company for the Economic Development of Albania," to purchase Zogu's sympathies with a loan of 65 million gold francs, guaranteed by the Italian Treasury and secured by the Albanian customs and, amongst other things, the Albanian playing-card monopoly. By this means a treaty of friendship was concluded, and was followed, in November 1927, by "an offensive and defensive alliance." In 1928, President Zogu proclaimed himself King of the Albanians—of the Albanians, it should be noted, rather than of Albania, the title being designed to include the large Albanian minority in Yugoslavia. Italian naval and military equipment thereupon poured into Albania—so fast, indeed, and to an extent so completely beyond the Albanian capacity for payment that, beginning in June 1931, an annual subsidy of 10 million gold francs free of interest had to be granted by the Italian Treasury to King Zogu as a token of friendship. This fairly expensive Italian penetration of Albania not unnaturally antagonised Yugoslavia, not least of all because she had originally financed Ahmed Bey Zogu. The threat of Italian aggression was thereupon exploited by the Serbian dictatorship to win over the dissident Croats, who are traditional enemies of Italy. Thus Italian policy had the ironical effect of strengthening the national unity of her opponent.

Although the existence of oil deposits in Albania has apparently been proved, their development is not yet a commercial proposition, and Italy has been brought into contact, through large purchases of Russian oil, with the Soviet Union. The incongruous friendship of Fascism and Bolshevism has thus been necessitated by mutual economic needs, rather than by dictatorship sympathies, and may be affected by the progress of Mosul Oilfields, of

which mention has already been made in the chapter on France.

A wider aspect of Italian foreign ambitions is revealed in the attempt to revive a consciousness of identity between the Fascist régime and the ancient Roman Empire. "What we have been we shall be," was one of the earliest of Fascist slogans. Ocular demonstration of the past glories of Rome, doubtless intended to convince the sceptical Italian, was provided by a series of extensive excavations, which have proved of great interest to archæologists. Of more significance, perhaps, was the aggressive policy of military and naval expansion, which was facilitated by the budget surpluses of 1925-28, and the prospect of further and unlimited American loans. This policy, which gave greatly increased employment in the heavy industries, developed into a demand for naval parity with France, which was construed by the latter country as a prelude to the attempt to extend Italian colonial possessions, probably in French Tunisia, where the Italian population far outnumbers the French. Rhetorical utterances regarding "the fourth shore that once was Rome" increased French alarms, which had been further stimulated by Franco-Italian conflict over the Libyan frontier and by Italian fortification of the Ægean islands (gained by Italy during the war of 1912), the latter indicating the possibility of an attempt on the mainland of Anatolia and perhaps ultimately on Syria. (It may also be pointed out in this connection that the difficulties recently experienced by the British authorities in Malta were largely Italian in origin.)

This type of forward policy was necessarily checked by the cessation of American credit in 1929, in which year an American firm which had hitherto been closely identified with Italian interests proved one of the big casualties of the Wall Street collapse. The impact of world depression on the Italian economy was a further restraining influence.

The budget for 1930-31 showed a deficit of 500 million lire, in contrast with the previous year's surplus of 170 million lire; and unemployment reached the million mark by the end of 1931, having doubled in the course of a year.

Italian policy in Europe has been concentrated on the Balkans, which is the chief practicable sphere for Italian economic expansion, and has pursued the aim of creating a united front of the states seeking revision of the Peace treaties. The *entente* with Hungary, the Italian-Bulgarian Royal marriage and the close sympathies of the Austrian Heimwehr with Fascism have all been utilised to this end. In economic terms the policy spelt penetration by Italian heavy and textile industries into Balkan markets, hitherto served by Germany and Czechoslovakia. Both political and economic progress in this direction, however, was fatally arrested by the international financial *débâcle* of the summer of 1931 and the resulting triumph of French diplomacy. In Hungary, Count Bethlen was compelled to resign, his place being taken by the strongly pro-French Count Karolyi. Bulgaria's finances were so shattered that France was temporarily able to impose her own conditions in return for a promise—which was never redeemed—of a loan. Austria's surrender to France was virtually complete. The effect of Italian lack of finance-capital was to dissipate in a couple of months the political gains of the previous four years.

During 1932 Italy's internal economic weakness became increasingly apparent. The budgetary deficit rose to the figure of 2,274,000,000 lire (the figure for 1932-33 is 3,500,000,000 lire), and, although there was a marked increase in agricultural production, unemployment increased steadily and was swollen by the return of Italian labourers from France and the United States. Apart from armament expenditure, the government deficit is largely due to the vast sums spent on land reclamation and similar schemes, the ultimate effect of which, it is hoped, will be

to enable Italy to maintain an increased population. Industry, meanwhile, is in a parlous condition, to which government "decontrol" of some of the major industries during 1925-26, when the new Fascist principle of non-interference by the government was given wide expression, has contributed. The complete reversal of this principle followed in due course, the government finding itself compelled to undertake the financing of several key industries. An Istituto Mobiliare Italiano was formed in 1931 to float industrial bonds bearing a government guarantee, and the increasing gravity of the position and the necessity for large-scale rationalisation and financing necessitated the creation, in January 1933, of a government reconstruction body on the lines of the U.S. Reconstruction Finance Corporation. This new Italian organisation is at present engaged in energetic attempts to raise funds, by means of lotteries and other devices, to finance government employment schemes, which include electrification of the railways. In a much vaguer fashion it is also concerned to bring about a comprehensive rationalisation—once more under state direction—of the chief economic activities of the country.

As regards Italian foreign relations in general, the resignation, in July 1932, of Signor Grandi from the Ministry of Foreign Affairs, a post which he had held since 1929, may be interpreted as Fascist recognition of the failure of his policy of friendship with this country (to which he has since been appointed Ambassador) and collaboration with the League. The resignation, it may be noted, followed upon the Lausanne Conference and the conclusion of the Anglo-French pact of Paris in July 1932, and was followed in turn by an unmistakable threat on the part of the Duce to withdraw altogether from the League.

In the Balkan sphere, Italian aims have met with a severe blow in the shape of the growth and unification of the Little Entente. Efforts were made in 1932 to seduce

Rumania, its most wavering member, by means of uneconomic grain purchases and remarkable projects for adjusting the Balkan kingdoms ; but the attempt to effect a *rapprochement* between Rumania and Hungary, heralded by a meeting of Count Bethlen and King Carol, appears to have ended in a more or less comic fiasco, in which matrimonial difficulties played their part. Hungary still follows in the wake of Italy, and the Hirtenberg arms case testifies to the military intimacy of the two countries. The official announcement, however, in February 1933, of the consultative pact between the countries of the Little Entente signified the complete victory of the policy of Dr. Benes over Mussolini's Balkan policy.

Italian political co-operation with Germany has been assisted by a revival of the old ties between Italian industry and German capital. The post-war links of the Fiat concern with the firm of Siemens and the Stinnes trust still persist, though in a changed form, and German participation in the new British-Italian oil venture has likewise had its political effect. The accession to power of the Nazi movement with its spiritual sympathies for Italian Fascism afforded the Duce an opportunity to restore a somewhat damaged diplomatic prestige. Persuasions to Mr. Ramsay MacDonald and Sir John Simon to visit Rome resulted in the mooting of the Four-Power Pact, of which the first version definitely sought revision of the Peace treaties and European frontiers. This version, which promptly brought the Little Entente into the arena in a fighting mood, was toned down and down, until its eventual colourlessness permitted the powers to initial the pact. Ratification, for what it is worth, has followed.

Doubt of its worth would be justified, if by nothing else, by the readiness of France to initial the pact and the marked hesitation of Germany. The truth is that the relations of Italy with Germany are undergoing a profound

modification at present, and disagreement over the desired course of events in Austria is only one contributory influence. The original hostility of Austria to Italy was due to the latter's acquisition of the Austrian Tyrol, but this hostility was submerged beneath a common interest in treaty revision. The Austrian Heimwehr was definitely organised on the Fascist model, and an even more obvious community of interest was implicit in the influence of the Vatican in Catholic Austria. Moreover, the latter's fear of losing her individuality in a forced *Anschluss* with Germany was bound to appeal to Italy, which had no more enthusiasm than Czechoslovakia for the prospect of subsequent German penetration in the Balkans. There was also the possibility of a reunion, under German pressure, of Austria with Hungary, which would thus draw off Italy's sole ally—a fatal loss, bankrupt though Hungary might be. Italian-German conflict is revealed pretty plainly at the present day in the Heimwehr-Nazi antagonism in Austria. It is also likely to appear in the near future in Rumania, where German plans for the formation of a Nazi party are in progress. It is clear enough to Italian eyes that an alliance of Germany with Austria and Rumania would prove a very powerful combination in the Balkans.

In these circumstances Italy has had no choice but to reconsider her attitude to France. The interests of both countries in regard to Austria are not dissimilar, and there was adequate excuse for their joint participation in a loan to Chancellor Dolfuss to enable the latter to suppress Nazi agitation. Further, since the continued difficulties, notably the financial difficulties, of the Italian government must soon necessitate external aid, that aid may be granted by France on suitable terms, in which case the old pre-war Franco-Italian liaison in the Balkans may be restored, particularly as fears of German monopoly increase. Italy, as Italians are beginning to realise, has been unable to

realise the original ambitions of Fascism in regard to France, and there are strong elements among the French Centre groups which seek better relations, commercial no less than political, with Italy. Thus the revival of German economy and a consequent German drive towards Central-European and Balkan markets may put an end to Franco-Italian tension. Such a turn of events would, of course, entail an alteration of French policy towards the Little Entente and a generally more pacific attitude on the part of Italy. Neither modification is impossible. Italian budget surpluses gave rise to an aggressive policy, and it is highly probable that ever-mounting deficits will produce a pacific policy.

Italy is not in a happy position at present. Economically she is living, as it were, from hand to mouth. The government has staved off a number of problems by extensive expenditure with unsecured internal borrowing, thus creating a huge floating debt burden for the forthcoming year. There is growing unemployment and discontent, and there is no immediate prospect of a change for the better. Fascism, its cruelties and summary penal code apart, may possibly be well adapted to the relatively primitive Italian economy, but it scarcely possesses the secret of economic welfare. Italy might conceivably be still worse off without Fascism, though that is hardly a recommendation to other countries. Lavish only of over-borrowing and rhetoric at home, and thwarted in every sphere of foreign policy, Fascist Italy has cherished political ambitions out of all proportion to her economic strength.

CHAPTER V

GERMANY

The Economic Consequences of Versailles

THE TREATY OF VERSAILLES destroyed the pre-war economic structure of Germany with remarkable thoroughness. By the terms of the Treaty, the manufacture of armaments, naval and military, hitherto the chief source of employment in heavy industry, was forbidden to Germany; her overseas colonies, the greater part of her foreign properties and her mercantile marine were surrendered to the Allies; she lost Alsace-Lorraine, the Saar Basin and—eventually—Upper Silesia; the agricultural estates of East Prussia were appropriated by Poland; the reparation clauses were, in effect, a vast and unspecified lien on German industry; and she was made to bear the burden of the specified reparations in kind of coal, chemicals, etc., the cost of the reconstruction of the devastated areas and the further cost of maintaining the Allied occupation of the Rhineland. In comparison with the Germany of 1913, the Germany of 1920 had lost 13 per cent of her population, 13 per cent of her territory, all her colonies, and 15 per cent of her total productive capacity. The last figure ignores the loss suffered through the war debilitation of German industry.

In spite of the creation of a republic in place of the Hohenzollern dynasty, it may well be argued that the political structure of Germany after the War underwent less drastic changes than the economic structure. The new Constitution did not destroy the old political groupings of

pre-war Germany. It is true that the Chancellor now became responsible to the Reichstag and that executive authority passed from the Junker military caste, drawn chiefly from the semi-feudal agricultural areas of Prussia, to the Social-Democrats and the Catholic Centre party. But the Junkers, like the influential section of the banking and industrial community, remained an integral part of German political life, and their eclipse, as later events were to show, was only temporary. With the exception of the monarchy, indeed, all the vital political forces in the Germany of 1913 were included in the reconstituted state of 1919.

In the closing disorganised period of hostilities it was not merely the military caste which had eyed the Social-Democratic party with suspicion, but also the socialist groups further to the left, of which the Spartacus League was the most militant. Following upon the formation of the Third International in Moscow, the Spartacists had waged bitter war upon the Second International, of which German Social-Democracy was the stoutest bulwark. With the abdication of the Kaiser came complete internal political disruption, and out of the desperate conflict of parties came Communist revolutions and counter-revolutionary *putsches*, the tragedies and treacheries (including the murder of Karl Liebknecht and Rosa Luxembourg) of civil war. Out of these in turn came the somewhat patchwork Weimar Constitution. Its inadequacies were evident even at that time. But it should not be forgotten that it created conditions of relative political stability essential to the reorganisation of German economy.

Of the blows aimed at Versailles at the heart of German economic life, a few were doubtless implicit in the terms of the armistice, to which the German reaction was symbolised by the suicide of the great shipping magnate, Albert Ballin. But most of them were beyond the worst fears of Germany,

which was crushed by the extent of the vengeance exacted. It was only in 1920, when the new Constitution had been fairly well established, that the Cabinet of Dr. Wirth began to press forward with schemes of economic reconstruction. The Cabinet included a prominent Jewish international Liberal, Walter Rathenau, the creator of the powerful electrical trust, the A.E.G. (*Allgemeine Elektrische Gesellschaft*), who did not commit suicide but was instead destined to be murdered. From the beginning, Rathenau's was a superhuman task, which was all but hopeless in view of the Allied maintenance of the economic blockade of Germany, with its resultant starvation among the civil population, and the fevered political tension in many parts of the country.

A completely new orientation of German industry was essential. The Saar, Lorraine and the Ruhr had together formed the most powerful unit in German pre-war heavy industry, and the loss of the sources of raw material in the Saar and Lorraine now necessitated, in the event of the German factories working at full pressure, the import of as much as 80 per cent of the iron ore required. The German industrialists, notably those who had incurred the heaviest losses in Lorraine, set to work energetically to make the best of a bad job, the most prominent figures among them being Fritz Thyssen, Hugo Stinnes and Emil Kirdorf. Assisted by the generous government compensation for their lost industrial properties, they were able to create new economic units, which were soon to become formidable factors in European industry. By a process of industrial regrouping and combination, and, later, by a none too scrupulous policy of utilising the steady inflation of the German currency for the purpose of absorbing existing enterprises, a system of huge trusts was built up, of which the most extensive were the Wolff steel trust and its great rival, the Stinnes trust, which pushed their ramifications into

every department of German economic life and sought to re-establish German influence in Austria and Czechoslovakia. This was a cardinal challenge to French interests, and was to lead directly to the French occupation of the Ruhr.

In one sphere only, it may be remarked, has there been Franco-German economic collaboration since the end of the War. Pre-war Germany had enjoyed a European monopoly in potash, but post-war Germany, through the loss of Alsace, shared her monopoly with France. The rival national concerns began by conducting a fierce economic war, in which both suffered heavy losses through systematic price reductions, and finally agreed, in 1924, to exploit in harmony their joint monopoly. Agreement might have served as a basis for wider co-operation between French and German interests, and Rechberg, the German "potash king," did indeed suggest a line of common action against Soviet Russia. But the Comité des Forges had other and more immediate ends in view.

French policy in the Ruhr has already been discussed. German policy was to offer passive resistance, and to subsidise the strike of the industrial workers of the Ruhr to the extent of several hundred million marks. The intention of the Cuno government in bearing the tremendous financial cost of strike pay, was, to a certain extent, one of deliberate inflation ; but it is certain that neither Dr. Cuno nor anybody else foresaw the rate at which the inflation of the mark, a serious enough problem before the invasion of the Ruhr, was to be accelerated. The flight of German capital abroad in the early months of 1923 sent the mark soaring to incredible heights, and the sheer struggle to keep pace with an overnight increase in prices of 200 or 500 per cent became a nightmare to the mass of the German population. As is the way of inflationary movements, this one could not be controlled. The industrialists profited

by it, since it helped them to extend their vast organisations and to acquire new groups and holding companies. The agriculturists profited likewise, since they were enabled to pay off their mortgages, while agricultural products did not suffer in value. But the rest of the population, especially the urban professional and middle classes, suffered irreparable loss. Reduced to penury by the destruction of their savings, they chose to remember the experience of those months. No class in Germany was able to look back on the occupation of the Ruhr and the rather brazen French attempt to manufacture a Rhineland separatist movement except with bitter memories.

In May the French succeeded in obtaining once more their deliveries of coke from the Ruhr factories. Inflation was in full swing, with disastrous consequences in other parts of Europe, and Anglo-American influence was being brought to bear, though in different ways, on France and Germany. Stresemann, a leader in industry and formerly a strong supporter of the War, now a dominant political figure in Germany, held out to the nation the hope that some sort of settlement could be arranged. In August, in the teeth of bitter opposition, which was broken only by the last miseries of the collapse of the mark, he surrendered, and M. Poincaré, yielding to the pressure of French interests opposed to his policy in the Ruhr, eventually accepted his surrender and the appointment of an American expert, General Dawes, a Chicago banker, as chairman of an international commission to fix the terms of Germany's annual reparation payments in return for evacuation of the Ruhr. The commission met for the first time in January 1924, and the Dawes Plan came into effect in September. In the previous August a new German currency had been stabilised by Herr Schacht, eventually President of the Reichsbank, in collaboration with Mr. Montagu Norman.

With the abrupt termination of the whirlwind collapse of

the mark the great German trusts irresistibly broke up. They had been largely erected on a basis of currency inflation, and the megalomaniac character of their financial structure had become increasingly apparent during 1923, when the price basis of mergers ceased to be seriously considered, since further inflation was certain to wipe out the cost. On the death of Stinnes, in April 1924, the position of the Stinnes trust was already dangerously insecure, and by June 1926 it had been completely liquidated into its numerous component parts.

The Intervention of the United States

The signal for American economic intervention in Germany was the appointment of Mr. Parker Gilbert, an American lawyer, as agent-general for reparations with a permanent office in Berlin—a post which, on resignation, he exchanged for a partnership in the house of Morgan. Intervention was expressed in an International Dawes Loan, secured chiefly on the German railways. It should be clearly borne in mind that the Dawes Plan, although it involved extensive foreign supervision for the purpose of ensuring the collection of the prescribed revenue, was highly acceptable to Germany (whereas the Young Plan was not), since it enabled the German government to bring order out of chaos and the contacts established with American financiers gave promise of a complete rehabilitation of German economic life. As for America's side of the bargain, it should as clearly be borne in mind that the gradual collapse of the German trusts was one of the key factors in facilitating American control of German industry.

For the influx of American capital into Germany, following upon the signature of the Dawes Plan, inevitably transferred a large share of control of German industry to American hands ; fresh capital, that is, was granted to

GERMANY

German firms by American banks in exchange for a large portion of the share capital. The Siemens concern was thus linked up with the Westinghouse Corporation, the A.E.G. with the General Electric Company ; the Opel motor works, the largest in Germany, was purchased by General Motors ; and numerous other German key industries were brought under partial or complete American control. In addition, the United States shared in the revival of the German marine, more particularly the new Hamburg-Amerika line and the Norddeutscher Lloyd, the reborn liner service, through the *Bremen* and the *Europa*, severely injuring British Atlantic trade. This country, though its financial opportunities were smaller than those of the United States, did not neglect them, and a notable result was the acquisition by Courtauld's of a controlling interest in the Glanzstoff artificial silk concern. The absorption of German industry by foreign agencies was partially checked, though at a late stage of the process, by a government policy of purchase and subsidy to threatened enterprises, this being chiefly directed against the possibility of French participation in the control of heavy industry. But only one great industry was left entirely in German hands—the dye trust (*I. G. Farbenindustrie A. G.*)—and even this organisation came to a working arrangement with Standard Oil in regard to the distillation of petrol from coal.

From 1924 to 1928 Germany imported at least 18,000,000,000 marks of foreign funds, the average yearly interest service of these loans being approximately 300,000,000 marks. About a third of the total amount represented long-term loans, another third represented short-term credits, and the final third was effected by share sales to foreigners. The United States was the chief long-term creditor, Britain the chief short-term creditor, and the chief purchase of shares was made from Holland, though Dutch brokers, it is clear, were frequently acting for

internal German interests. The sum total of foreign loans was greatly in excess of the sums paid out during this period by Germany by way of reparations—was indeed nearly three times as much as the latter. It represented the life-blood of the new German industry, intensively rationalised on the American model and directed, in many instances, by American interests.

During this period, from 1924 to 1928, vast loans were, figuratively speaking, forced upon Germany—upon German municipalities and smallish business concerns, that is, as well as upon the Reich government. It was the boom period in America, the great era of "prosperity," and it was then possible to sell almost anything in the United States. Private banking firms negotiated every conceivable kind of loan for the purpose of taking their commission, and high-pressure bond salesmen employed their arts upon the American public with conspicuous success. The result was that German municipalities and enterprises were involved in debts which were completely unjustified by the economic position of the country, and that interest payment on these debts seriously aggravated the already difficult foreign exchange problem of Germany. The entire American lending policy was carried to recklessly unsound lengths, and eventually elicited a protest from the American agent-general for reparations.

The apparent success of Stresemann's policy had found political expression, in 1925, in the Locarno Pact, which emphasised the accommodating attitude towards Germany pursued by MM. Herriot and Briand. Locarno was a personal triumph for Stresemann, but it was perhaps not much more than a personal triumph. It did not represent the feeling of Germany. German opposition to Stresemann's conciliatory line of action in European affairs gathered momentum from month to month, and was given special force by the humiliating delay, after the signature of the

Pact, in admitting Germany to membership of the League. The national reaction to Locarno is, in a sense, best summed up in the eventual disappearance of Stresemann's group in the Reichstag, the People's Party, from German political life. At any rate, the decisive fact to be appreciated here is that although, as the result of foreign loans, there was a remarkable trade boom in Germany from 1925 onwards, the German people, as a whole, did not share in its advantages. The middle classes received nothing in compensation for their losses, and rationalised industry only partially absorbed the unemployed. Stabilisation, it is true, gave promise of better times to come, and the Social-Democrats and the Centre party were able, until the coming of the depression in 1929, to obtain an adequate working majority in the Reichstag. Nevertheless, it is well to remember that the intensification of nationalist political sentiment, after the conclusion of the Locarno Pact, had the inevitable backing of German industry, which spoke most loudly through the voice of Herr Hugenberg and demanded a more aggressive policy in the conduct of Germany's foreign relations, particularly in regard to France.

Reparations and the Young Plan

The trade boom, as has been remarked, did not save Germany from unemployment, but in the long run actually tended, through the large-scale rationalisation of industry which it encouraged, to produce an increasing volume of unemployment. It is worth noting, perhaps, that the British coal lock-out afforded Germany (as well as Poland) unexpected commercial advantages, and these were maintained for a couple of years or more. For the rest, the seemingly inexhaustible stream of foreign loans produced the expected results. During 1928, however, general industrial conditions in the country greatly worsened, owing to the

long and bitter strike in the Ruhr, the shrinking of foreign markets and the sharp rise in unemployment following upon still more intensive rationalisation. The limits of lucrative foreign investment appeared to have been reached, for it was becoming apparent that a proportion of the loans to Germany had gone into purely non-productive activities. As the trade boom slackened the necessity for foreign readjustment of Germany's economic affairs became increasingly urgent. The change was finally brought about by the Young Plan.

The four principal factors which gave rise to the Young Plan were closely inter-related. They turned on the precise extent of Germany's annual liability and the proposed increase for 1929, under the Dawes Plan, to a standard annuity of 2,500,000,000 marks ; the rival claims of her commercial and political creditors ; the strain upon her foreign exchange ; and her desire for freedom from foreign financial supervision. So far as the last of these factors is concerned, this was assuming first-rate political importance as the consequence of a nation-wide campaign of patriotic, nationalist, anti-French and anti-American propaganda, and was combined with insistence upon the evacuation of the Rhineland. The other factors fell into a fairly straightforward economic sequence. Reparation payments, which mostly went to France, *plus* the payment of commercial debts to the United States and Britain, exerted an increasing pressure upon Germany's foreign exchange resources ; and, as tariff barriers throughout Europe and the general growth of agricultural depression restricted Germany's export trade, this pressure became obviously threatening. The essential problem, therefore, was to limit German total liability for reparations—which had remained unspecified under the Dawes Plan—by mutual consent of the creditor countries. It is noteworthy that the American agent-general, Mr. Parker Gilbert, in his report

of January 1927, had declared that it would be impossible for several years to fix a specified *total* figure of reparations. By July 1928 he had changed his mind sufficiently to urge the necessity of a conference for the purpose of fixing Germany's total liability. The negotiations for the Young Plan were begun in January 1929, and the Plan was settled in the following August. The prescience of Mr. Parker Gilbert was somewhat startlingly evidenced during the negotiations. In the first four months of 1929, between 1,500,000,000 and 2,000,000,000 marks of foreign credits were withdrawn from Germany, and the Reichsbank lost one-third of its gold reserves and the whole of its foreign exchange. The withdrawals, it need hardly be said, were not made without French awareness of the consequences, and were indeed largely made on French initiative.

The Young Plan drew its name from the American representative in charge of the negotiations, Mr. Owen D. Young, who was, significantly enough, the legal adviser to the General Electric Company of the United States. It was not achieved without protracted argument and elaborate bargaining. French opposition was all but implacable—hence the long-drawn-out deliberations. But there was almost as much and as bitter opposition in Germany itself, notably on the part of the irreconcilable Herr Hugenberg, who very naturally objected to a claim on German industry for the next 59 years and who was supported by Dr. Vöglér, a former partner of Stinnes, who chose to withdraw from the Paris negotiations, which he had attended as an industrial delegate ; on the part of the more or less newly emerged Adolf Hitler ; and finally—and very significantly—on the part of Dr. Schacht, the financial authority who had played so prominent a part in the negotiations of the Dawes Plan. It is scarcely worth while discussing the Young Plan at the present day. It came into force in May 1930, and its detailed schedule of reparations over a period

long and bitter strike in the Ruhr, the shrinking of foreign markets and the sharp rise in unemployment following upon still more intensive rationalisation. The limits of lucrative foreign investment appeared to have been reached, for it was becoming apparent that a proportion of the loans to Germany had gone into purely non-productive activities. As the trade boom slackened the necessity for foreign readjustment of Germany's economic affairs became increasingly urgent. The change was finally brought about by the Young Plan.

The four principal factors which gave rise to the Young Plan were closely inter-related. They turned on the precise extent of Germany's annual liability and the proposed increase for 1929, under the Dawes Plan, to a standard annuity of 2,500,000,000 marks ; the rival claims of her commercial and political creditors ; the strain upon her foreign exchange ; and her desire for freedom from foreign financial supervision. So far as the last of these factors is concerned, this was assuming first-rate political importance as the consequence of a nation-wide campaign of patriotic, nationalist, anti-French and anti-American propaganda, and was combined with insistence upon the evacuation of the Rhineland. The other factors fell into a fairly straightforward economic sequence. Reparation payments, which mostly went to France, *plus* the payment of commercial debts to the United States and Britain, exerted an increasing pressure upon Germany's foreign exchange resources ; and, as tariff barriers throughout Europe and the general growth of agricultural depression restricted Germany's export trade, this pressure became obviously threatening. The essential problem, therefore, was to limit German total liability for reparations—which had remained unspecified under the Dawes Plan—by mutual consent of the creditor countries. It is noteworthy that the American agent-general, Mr. Parker Gilbert, in his report

of January 1927, had declared that it would be impossible for several years to fix a specified *total* figure of reparations. By July 1928 he had changed his mind sufficiently to urge the necessity of a conference for the purpose of fixing Germany's total liability. The negotiations for the Young Plan were begun in January 1929, and the Plan was settled in the following August. The prescience of Mr. Parker Gilbert was somewhat startlingly evidenced during the negotiations. In the first four months of 1929, between 1,500,000,000 and 2,000,000,000 marks of foreign credits were withdrawn from Germany, and the Reichsbank lost one-third of its gold reserves and the whole of its foreign exchange. The withdrawals, it need hardly be said, were not made without French awareness of the consequences, and were indeed largely made on French initiative.

The Young Plan drew its name from the American representative in charge of the negotiations, Mr. Owen D. Young, who was, significantly enough, the legal adviser to the General Electric Company of the United States. It was not achieved without protracted argument and elaborate bargaining. French opposition was all but implacable—hence the long-drawn-out deliberations. But there was almost as much and as bitter opposition in Germany itself, notably on the part of the irreconcilable Herr Hugenberg, who very naturally objected to a claim on German industry for the next 59 years and who was supported by Dr. Vögler, a former partner of Stinnes, who chose to withdraw from the Paris negotiations, which he had attended as an industrial delegate; on the part of the more or less newly emerged Adolf Hitler; and finally—and very significantly—on the part of Dr. Schacht, the financial authority who had played so prominent a part in the negotiations of the Dawes Plan. It is scarcely worth while discussing the Young Plan at the present day. It came into force in May 1930, and its detailed schedule of reparations over a period

of 59 years lasted only eighteen months. All that needs to be emphasised here is that, unlike the Dawes Plan, it offered Germany no positive advantages whatever, but was merely devised to mobilise payment of her political debts in the form of international securities.

The only feature of the Young Plan which was of vital interest to Germany concerned the Allied evacuation of the Rhineland. The original scheme allowed for evacuation of three zones in five-yearly instalments, ending in 1935. The first zone had been evacuated at the beginning of 1926, after which came the failure of the Briand-Stresemann conversations of September at Thoiry, in which France offered complete evacuation in return for the commercialisation of reparation debts. The Young Plan now secured immediate evacuation of the second zone—a year ahead of schedule—and that of the third zone, which was occupied by the French alone, not later than June 1930. This was one of the principal bargaining factors in the negotiations and one of the main causes of French intransigence.

The Emergence of Dictatorship

The international economic factors which had helped to call forth the Young Plan exercised an ever more baleful influence on internal conditions in Germany during the negotiations and after the signature of the Plan. Depression in the agricultural countries of Europe, and the desperate remedies devised elsewhere for trade depression, both took their toll of Germany's export trade and produced a further sharp rise in unemployment. The entire course of economic events favoured, from beginning to end, widespread dissatisfaction with the Social-Democratic-Centre government, and dissatisfaction took the form of increasing support for the two extreme parties in the state, the Communist party and the National-Socialist party.

National-Socialism, which had first appeared as an anti-Communist movement in Bavaria in 1919, had definitely emerged as a developing political organisation in 1926, by which time the newly created rationalised industry had given a fatal turn to the unemployment problem in Germany, and the great body of the middle classes, ruined by inflation, had come to realise that neither foreign lending nor the trend of legislation at home was to afford them any recompense for their losses. Side by side, then, with the growth of Communism at the expense of the moderate parties—its progress ran parallel to the decline of the socialist trade unions, whose membership was almost halved between 1923 and 1928—went the counter-development of a militant nationalist and anti-labour agitation. It should be remembered that numerous patriotic organisations, which in effect came to constitute private armies, had been formed all over Germany from the period of civil war in 1919 onwards; and Adolf Hitler's movement, like Mussolini's in Italy, was only one of several organisations of its kind. National-Socialism commended itself to the bourgeoisie generally, but it appealed to the "proletarianised" middle classes with peculiar force. Its strongest card was, and perhaps still is, the remarkably astute exploitation of slogans carrying a powerful psychological stimulus to the former bourgeoisie. Among this section of the community—whose wealth, largely expressed in the patriotic loans subscribed during the War, had been destroyed by the collapse of the mark—it was widely believed that the German bankers, particularly the Jewish bankers and those with international connections, had made substantial fortunes out of the inflation period. Under National-Socialist tuition, the belief was transformed into the conviction that inflation had been deliberately pursued with this end in view. Further, the impoverished bourgeoisie, whose patriotism had originally been reflected in the

extent of their subscriptions to German war loans, retained their patriotism to the extent of refusing to believe that Germany had suffered military defeat in 1918. It was a comparatively short step from this point of view to the National-Socialist view that Germany had been betrayed from within by "internationalists" and "Marxism," and that the strikes—which had arisen from the food shortage—of the last year of hostilities had been a primary cause of the disruption of the Empire. Since disruption had been followed by the Weimar Constitution, with which the Social-Democratic party, the socialist trade unions and, above all, the Jewish elements in the German liberal parties—elements which had always been noted for their international rather than national sympathies—had been prominently associated; and since, moreover, Socialists and Jews and internationalists had held political power in the republic since the inception of the Weimar Constitution, theirs was the responsibility for the downfall of Germany and for the middle classes' loss of their investments. Such was the reasoning—epitomised in the slogan "Germany, awake! Judah, perish!"—which the National-Socialists took over and fostered. To the impoverished bourgeoisie, doctrine of this kind became sweet music. It was not without attraction, too, to the small farmers who, although they had scarcely suffered from the inflation, had since begun to incur heavy indebtedness, and who were ready enough to don the Nazi swastika in return for an attack upon "the usury of interest."

Thus by 1926 the National-Socialist movement was in a favourable position to exploit dissatisfaction with the Weimar Constitution and with the Social-Democratic-Centre régime. Their activities were greatly assisted by the handsome donations received from the big industrialists of Bavaria and the Ruhr, who were not unwilling to pay for assistance in combating organised labour. The Bavarian

subscriptions had formed the original basis for the movement ; but, after the imprisonment of Hitler in February 1924, and the ratification of the Dawes Plan, the party had lapsed into almost total obscurity. At the Hanover Congress in 1925 a section of the party, led by Otto Strasser, had urged the adoption of a pro-labour policy, but Adolf Hitler had had other plans. The essentially petty-bourgeois line of policy on which he embarked was influenced by a variety of factors, among them the failure of the " Americanisation " of German industry to solve the problems of the middle classes, the successful establishment of Fascism in Italy, and in particular the plight and temper of the small urban shopkeeper, the small-scale farmer, the more modest professional classes and the clerical workers, who were being subjected to increasing hardships.

Since unemployment had failed to respond materially to the trade revival, and membership of the official trade unions was rapidly decreasing, the socialist leaders in the Reichstag, in order to retain the allegiance of their working-class followers, adopted a more definitely socialist line of policy. This stimulated the fears of many leaders of industry. The Federation of the Ruhr ironmasters, notably Fritz Thyssen, and also the potash magnate Rechberg, who had always been prominent in German anti-Bolshevik agitation, proceeded to set a general example to other industrialists in respect of subscriptions to the National-Socialist funds. Careful propaganda elicited further assistance from the numerous foreign financiers who had developed important interests in Germany since the War. Ivar Kreuger followed his usual practice of contributing generously to any political party which might be of assistance to him ; in this particular instance, he was not only safeguarding his extensive German match interests, but also ensuring favourable contacts for his Swedish heavy industrial interests in the event of German re-armament. The

vast American holdings in German industry and of German bonds naturally made their owners an easy victim to the Nazi contact men, who assured them that National-Socialism alone stood between their interest and the Marxism of organised labour. In 1928 the General Motors Corporation, for which the house of Morgan acts as banker, had become closely interested in German affairs through their purchase of the Opel concern, and General Motors made certain that no difficulties would arise at any future date by handsome subscriptions to the Nazi funds. (It is noteworthy that one of the first acts of the Hitler dictatorship was to remit taxation on newly purchased motor vehicles, ostensibly as a means of bringing about a trade revival.) Many of the U.S. issuing houses most active in the flotation of German bonds are said to have been generous subscribers. One of these issuing houses, Dillon, Read & Co., which had close contacts with the Chase National Bank, was also instrumental indirectly in supporting the Nazi movement by issuing vast loans on behalf of the German steel companies (from 1924-29, \$124,000,000 was issued in the United States on behalf of the United Steel trust, with which Fritz Thyssen was prominently associated). These loans undoubtedly permitted the German concerns involved to be more generous in their support of Herr Hitler's movement than they could otherwise have been.

Indeed, throughout the whole of its meteoric career, National-Socialism has always been in the last analysis the political organ of the Ruhr heavy industrialists, who suffered primarily from the loss of Lorraine and the Saar and from the restrictions imposed by the Treaty of Versailles upon German re-armament. Their support of National-Socialism served the twofold purpose of safeguarding their interests against the encroachments of Communism and the general tendency in Germany towards state Socialism—a tendency which became increasingly marked and indeed

inevitable under the Brüning régime—and of rallying popular sentiment behind the demand for re-armament. Naturally enough, the German public was not informed of the close associations existing between the Nazis and heavy industry. Nazi funds received their most open and quite considerable support from the more enthusiastic middle class converts to the movement, but these gifts alone were quite inadequate to maintain the huge organisation built up between 1928–30.

The diverse sources of financial support necessitated remarkable elasticity in the doctrines of National-Socialism. There was no consistency in the Nazi programme, and no consistency was possible; for the programme had of necessity to be adapted to the particular outlook and requirements of the subscriber. Patriotic self-assertion and a somewhat misty nationalist idealism, with a virulent admixture of anti-semitism and an attack on "usury" and large-scale combines, proved the most effective programme for the middle class subscriber; denunciations of Marxism and diatribes against class war tickled the palate of the big industrialist.

In 1927 and 1928 the Nazi organisation took a big stride forward, and in the general elections of the latter year gained 800,000 votes, representing 2.6 per cent of the total votes recorded, and 13 seats in the Reichstag. This success was a signal for renewed and intensive propaganda. During the autumn a great strike took place in the Ruhr, and the industrialists redoubled their support of National-Socialism. Emil Kirdorf, one of the most powerful of the industrial magnates of Germany, who had hitherto stood aloof from the movement, was now persuaded to place at Hitler's disposal the Ruhr ironmasters' strike-breaking fund. His action coincided with a Nazi pronouncement that large-scale industry was socially beneficial to Germany. As a result of collaboration of this kind, the Nazi budget from

1928 to the end of 1932 totalled, it is estimated, more than 250,000,000 marks. This went towards the cost of propaganda on a constantly developing scale and the upkeep of a private army of 400,000.

During 1929 Hitler followed the lead of the big industrialists in pursuing a campaign of violent propaganda against the Young Plan. This campaign was the occasion of a working alliance between the Nazis and the extreme Nationalist party, led by Herr Hugenberg, the pre-war general manager of Krupp's and now much the largest newspaper proprietor in the country. (The Nationalist party, which was closely associated with heavy industry, had always opposed the Treaty of Versailles, and had consistently sought the restoration of the monarchy.) The temporary alliance afforded the Nazi organisation invaluable publicity, but otherwise produced only negative results. The "national referendum" of December 1929, in the shape of a Bill against the Enslavement of the German people, had the backing of 6 million Nazi-Nationalist votes, but was powerless to prevent the ratification of the Young Plan.

The internal politics of Germany during 1930 came more and more perceptibly under the control of economic factors. In March the Müller government resigned in face of the widespread campaign of outcry against the Young Plan settlement—a campaign greatly assisted by Dr. Schacht, who was himself one of the German signatories. Dr. Brüning took office as Chancellor, with the political support of the Catholic Centre party, the Catholic trade unions and the obviously declining force of Social-Democracy, but with little support from the dominant economic interests in the country. The new Chancellor was faced at the outset by an accumulated budget deficit of the four previous years of 1,284,000,000 marks and a prospective deficit for 1930–31 of 700,000,000 marks. As no budget was voted, owing to the sectional opposition in

the Reichstag to each of the numerous extra taxes and economies proposed by the government, Dr. Brüning advised the President to prorogue the Reichstag, this being permissible under the Weimar Constitution, and to promulgate an emergency decree imposing the necessary taxes and economies.

The emergency decree was issued in June. In the following months the further withdrawal of American credit, which was needed to meet the unbroken depression in the United States, and a still sharper contraction in world trade inevitably reacted upon Germany's economic position. The rising level of unemployment, which reached the figure of nearly $4\frac{1}{2}$ millions in December 1930; the intensified dissatisfaction with the government programme and Social-Democratic policy; the increasing difficulties of the farming community and of the professional classes; and, not least of all, the inability of university students to enter a profession—all fostered the growth of National-Socialism, which thrived on economic depression in any shape or form. Financial support of Adolf Hitler, the foe of Marxism, of the trade unions, of class war, of national disunity, of France, of foreign domination, of international capital, of the government, of the Jews—showed no sign of abating. In the September elections the Nazi vote swelled from 800,000 to $6\frac{1}{2}$ millions, and the number of Nazi deputies in the Reichstag rose from 13 to 107. The Communists also made substantial gains—again at the expense of the Social-Democrats.

The political progress of the extreme parties immediately caused a flight of capital abroad and the withdrawal of much short-term money. Coupled with the increased budgetary burden of unemployment and the contraction of receipts, this necessitated a second emergency decree, imposed in December, by which income tax was again increased and a severe cut made in the salaries of all public

officials and state employees. A combined Nazi-Communist vote of rejection was defeated by the small majority of 38.

The prorogation, by Presidential decree, of the Reichstag in the following March transformed government into a veiled dictatorship. Attempts were made through the Foreign Minister, Dr. Curtius, to maintain the economic vigour of the community by initiating a series of trade pacts with other countries. The negotiations opened in the new year with Rumania, Yugoslavia and Austria forged a link in a chain of events which have already prompted historians to christen 1931 the *annus terribilis*. The French government of the Right and the Czechoslovakian government both eyed with the gravest suspicions the course of these negotiations, which threatened to deprive them of some of their most important markets. The announcement, in March, that a protocol for the establishment of a German-Austrian customs union had been initialled in Vienna was the occasion for that display of French financial power which raged so destructively throughout 1931. Although French action was directed in turn against Austria, Britain and the United States, it was Germany which, in every case, bore the brunt of the blow. In June a third emergency decree—the last, it was hoped—imposing fresh cuts in pensions and salaries, doubling the tax on sugar, increasing the tax on oil and petrol and instituting a special “ crisis tax,” was issued ; the Presidential manifesto which accompanied the decree declared that “ the limit of the privations which we can impose upon our nation has been reached.”

The political repercussions of the decree were violent. Dr. Brüning's government had now become known as the “ starvation government,” and there were immediate Communist riots in the Ruhr. The People's Party, which formed the chief big business support of the government, demanded a reconstruction of the Cabinet, and threatened

to join the Nazis and Communists in their joint demand for the immediate convocation of the Reichstag. The demand was made in the hope of forcing the resignation of the Chancellor, in which event an "Economic Dictatorship," consisting of Dr. Schacht, Herr Krupp von Bohlen, Herr Henckel, Dr. Vögler and General von Seeckt, was to be formed. It is difficult in this connection to refrain from the observation that Dr. Schacht and Herr Krupp von Bohlen are prominent "independent" figures in the present Nazi régime, and that no Nazi name figures in the composite economic dictatorship.

Dr. Brüning, in the midst of political and financial panic, was able to defy both his own supporters and the more extreme Left. The rebellion of the People's Party was quelled by the mere information that, if the Reichstag assembled, the banks would refuse to advance credits of 250,000,000 marks, which were needed for immediate payment of salaries. The Chancellor, however, was not so successful in allaying foreign alarm. In the first week in June the Reichsbank lost nearly £8,000,000 in gold and foreign exchange; in the second week it lost £26,000,000.

The eventual realisation abroad of the parlous condition of German finances led President Hoover, in an attempt to salve what was left of American interests in Germany, to propose, on June 20, a moratorium for one year on inter-governmental payments. The proposal, it should be said, was Anglo-American in inspiration, and was finally issued upon the telephoned advice of Mr. Andrew Mellon, who, in his capacity of Secretary to the Treasury, had had an interview with Mr. Montagu Norman two days before. The French government, which was not unduly dismayed at the spectacle of German economic life *in extremis*, was in no hurry to accept the Hoover proposal. Immediate German necessities having been covered by a credit of £20,000,000 from the Bank for International Settlements and the

national central banks, the French government intimated its willingness to make concessions and to give such further financial assistance to Germany as might be required, but only on the following conditions : abandonment by Germany of the proposed customs union scheme with Austria, cessation of work on the second pocket-battleship, dissolution of the Stalhelm (built up round the chief of the ex-soldiers' voluntary organisations), acceptance of the Polish frontier and, lastly, a ten-years' " political moratorium " on agitation for treaty revision.

No German government could have accepted these conditions, for acceptance would have roused practically the whole of Germany to instantaneous fury. The Nazis were not alone in demanding treaty revision. Hitler's policy of denouncing the Treaty of Versailles, above all the " war guilt " clause, had a special virtue for the German heavy industrialists, whose desire for the removal of the ban on armament manufacture was soon to take the form of a demand for equality of armaments. But treaty revision was a hope that lay very near the heart of Germany as a whole, and surrender to the French demands was unthinkable. The knowledge that the Chancellor dared not accept them, above all in view of the strength of the Nazis and Nationalists, provoked further foreign withdrawals, and the internal financial crisis soon reached breaking-point. France accepted the Hoover proposal on July 6. By that time collapse was unavoidable. The following day saw the great North German Wool failure, in which one of the principal banks in Germany, the Danat (the Darmstädter and National Bank), was heavily involved. Almost immediately Dr. Luther, President of the Reichsbank, set out in an aeroplane in search of foreign credits. He returned empty-handed. On July 13 the Danat closed its doors, and on the morrow all the banks in Germany were closed for two days by government decree. Severe restrictions were placed on

the use of money, a special passport tax was imposed to discourage travel and a government censorship of the Press established.

Dr. Brüning thereupon proceeded to London for a world conference on the German position. The French restated their demands, which were dismissed as impracticable by this country and the United States. Nevertheless, except for the decision to prolong the £20,000,000 credit to the Reichsbank, the London Conference proved totally abortive. In August it was the turn of the Wiggin Committee of the Bank for International Settlements (Mr. Albert H. Wiggin was the chairman of the great Chase National Bank of New York) to struggle with Germany's credit and transfer problems.

The private "standstill" agreement for six months, effected by Germany's foreign creditors, expired in February 1932, and while Germany in consequence did not wish to increase her short-term credit liability, a long-term loan appeared to be out of the question. An already insoluble problem became more than ever insoluble with the departure of Great Britain, in September, from the gold standard. Apart from sterling losses, Germany suffered, through the depreciation of the pound, a final blow to her export trade, particularly in coal. On top of that, owing to French pressure, the trade negotiations with Rumania and Yugoslavia had been broken off. September broke all German records for bankruptcies, and the total number of German bankruptcies for the year—17,000—is the highest known.

Dr. Brüning was fast becoming completely isolated in his dictatorship. In an heroic attempt to meet new difficulties a further Presidential decree was issued to safeguard the economic and financial situation and to combat "political excesses," the latter aim having been necessitated by the increasing violence of the civil struggle between the Nazis

and the Communists. The decree, which was intended to force down prices and diminish costs of production, demanded fresh sacrifices from all classes. Together with the formal establishment of state control, through a Reich Commissioner, over all banks in the country, it so alarmed the industrialists that the National Federation of German Industries urged on President Hindenburg "the necessity for maintaining the system of private trading and ending government interference in industry." Simultaneously an attempt was made to rally all the forces of the Right at a meeting between Hitler, Hugenberg, Dr. Schacht and General von Seeckt, when the so-called "United Harzburg Front" was formed to oppose Brüning and his "system."

The President showed signs of alarm at this point, and an interview with Hitler proved fruitless only on account of the latter's unyielding demand for the key Ministries of Foreign Affairs, Interior and Defence. But Chancellor Brüning could make no headway with plans for internal economic improvement. Unemployment rose by three-quarters of a million from September to November, and in the latter month exports declined by 15 per cent. In December another major emergency decree, which has been described as without parallel in modern legislation, was promulgated, enforcing reductions in all charges—rents, interest rates and wages—and also forbidding civilian wearing of uniform and possession of firearms. It was clear that the Chancellor had exhausted the possibilities of his line of policy and that the German people had nothing to hope for in a continuation of the Brüning régime.

Hitler misjudged the precise extent of his following when he challenged Hindenburg in the Presidential election of March 1932. That he doubled the total Nazi poll in the previous Reichstag elections indicated plainly enough, however, the extent of the dissatisfaction of the German

people with the "system." Even more illuminating were the local elections of April, which resulted in enormous Nazi gains, National-Socialist representation in Prussia, for instance, increasing from 9 to 162 seats. It was a matter of a few weeks before Dr. Brüning was, so to speak, at his last gasp. In May he presented the President with a new batch of emergency decrees, among which was the proposal to expropriate certain bankrupt estates in East Prussia for the purpose of settling the unemployed as smallholders. Junker members of the President's private *entourage* described the proposal as agrarian Bolshevism. The President, who had been deaf to the complaints of the industrialists in the previous October, now yielded to the persuasions of his brother Junkers, and Dr. Brüning duly resigned.

The rest should be familiar history, though a few comments may throw the course of political events into wider perspective. The problem of appointing a successor to Dr. Brüning was complicated by the President's personal antipathy to the now highly popular Hitler; and, after another abortive interview, the new Chancellor appeared in the person of Herr von Papen. The appointment evoked general surprise, but was plainly intended to split the Nazi movement, which threatened to prove a Frankenstein to its original supporters, the industrialists and the allies of the United Harzburg Front. Herr von Papen, it was surmised, would attract, in addition to Nationalist support, the Right elements in the Nazi movement; and, on the assumption that the new Chancellor would unfailingly press for treaty revision and Germany's right to re-arm, many of the prominent heavy industrialists are reported to have withdrawn their financial support from Hitler. Whether or not this was the cause, a tendency of the socialist elements in the movement to assert themselves became visible at this stage. The industrialists were not seriously perturbed, but reckoned on a revival of German trade and industry as a

result of the Lausanne Conference, which had at last forgathered.

The meeting of Herr von Papen and M. Herriot evoked from the German Chancellor the recognition of "France's right to compensation for the renunciation of reparations," and the claim to represent "all the national forces of Germany." Unfortunately, his return to Berlin afforded ample evidence that he had roused the active hostility of every section of the community. The Nationalists charged him with surrendering to France ; industry was up in arms against the prospect indicated by the word "compensation" ; and the Nazis, although they had been conciliated at the start by permission to wear uniform, were delighted with the opportunity to rend the new dictatorship. In a hasty effort to restore his prestige, Herr von Papen stole the thunder of his opponents and flatly demanded, at Lausanne, treaty revision and the erasure of the "war guilt" clause. The pronouncement very nearly wrecked the conference, but, by the exercise of a prolonged spell of persuasive magic, Mr. MacDonald succeeded in obtaining agreement on July 9. Germany's liability was limited to 3,000,000,000 marks, and a moratorium was granted for three years.

Herr von Papen's signature to the Lausanne agreement precipitated another storm of opposition at home. This burst out most menacingly in the Nazi ranks. New elections were to be held on July 31, and the leaders, who were breathing fire and fury throughout the country, hoped for an absolute majority in the Reichstag. "In three weeks' time," announced Herr Hitler, "the Lausanne agreement will not be worth three marks."

There may be some excuse at this point for a comment or two on the general history of German reparations, and perhaps the following statistical summary will help to make matters plain.

GERMANY

TABLE OF REPARATIONS

1918	Total submitted by the experts . . .	£1,200,000,000
1919	Total submitted by Hughes Committee at Versailles	£24,000,000,000
1920	Total Allied claim at Spa Conference .	£12,000,000,000
1921	Total of Official Schedule fixed by Re- parations Commission	£6,600,000,000
1924	Dawes Plan; Annual Payments rising in 1929 to standard annuity of . . .	£125,000,000
1929	Total of Conditional and Unconditional Payments fixed by Young Plan . . .	£5,536,000,000
	Unconditional Total	£1,709,000,000
1931	Hoover moratorium	
1932	Lausanne agreement.	£150,000,000 after 3 years' moratorium

Up to 1932 the total amount of reparations in both cash and kind paid by Germany was—according to German calculations—£1,029,000,000. It is worth noting that this figure was only a little less than the figure, calculated on the practical basis of Germany's capacity to pay, which was submitted by the experts almost immediately after the armistice and rejected out of hand at Versailles; and that the total unconditional German liability as fixed under the Young Plan, which was the last reparations agreement actually enforced, was similarly not very much higher than the experts' figure. The conclusion to which one is forced is that, in the long run, reparations as a financial problem served chiefly to provide international bankers with business through the Dawes and the Young loans. At any rate, the reluctant return to a claim for reparations which was within the bounds of practicability was made at the cost of the tragedy of the inflation period in Germany, her present level of unemployment and probably much, much more besides.

No one doubts, whatever the future of war debts to the United States, that France has seen the last of war reparations. Hitler's boast was not an empty one. Lausanne was a

final settlement so far as Germany is concerned, and the three-years' moratorium will, presumably, stretch into eternity.

One final observation may be appropriate here. Among the contributions to Nazi funds which came from abroad were subscriptions from the French-controlled Skoda works. Doubtless these subscriptions came from Czech rather than French interests, and were designed to elicit orders for equipment for the Nazi army. Doubtless there was no deeper design.

Back to 1914?

Herr Hitler failed to obtain his absolute majority at the July elections, though he more than doubled the Nazi vote of 1930. Since in any case the præsidial dictatorship had previously announced its intention of ignoring the result of the elections, it was possible for Herr von Papen to proceed with his plans for the restoration of public confidence and the revival of the national economy.

The German banking structure, through a heavy writing-down of capital and a guarantee of state aid, had already been overhauled, and Herr von Papen now turned his thoughts to German industry. Such expedients as a remission of taxation in the form of promissory notes for 1934, and a system of rebates for extra hands employed in industry—with the corresponding privilege of a proportionate reduction of wages—aimed at stimulating individual initiative and the confidence of the private investor. The proposals were acceptable to capitalist industry, but antagonised the working classes; in practice very little improvement occurred. More aggressive measures were taken to encourage agriculture—a task nearer to the Junker heart—and still higher protective duties and quotas for meat and dairy produce were instituted. The immediate effect was to aggravate the problems of industry, whose foreign markets were those hardest hit by the increased

agricultural protection ; and the continued failure to restore industry in turn helped to deprive the small farmer of his urban market. A fresh blow to the von Papen government was given by the revelation of corruption in the administration of grants to the bankrupt agricultural estates of East Prussia. The industrialists saw no point in further tolerance of a régime which obstinately gave first thought to agriculture.

Meanwhile, however, the now rudderless Nazi movement, doubtless to keep its spirits up, indulged in so fierce a display of violence that the Chancellor withdrew permission to wear uniform and imposed the death penalty for armed political assault. These measures were unavailing. The economic revival so confidently predicted in August still eluded Germany, and, in the face of mounting difficulties, Herr von Papen, partly as the result of a palace intrigue, yielded the dictatorship to "the strong man of Germany," General von Schleicher, who was credited with a scheme for enlisting the more socialist elements among the Nazis, the trade unions and big industry in a common cause. But the General had no political backing ; Strasser, the leader of the socialist faction of the Nazis, was virtually expelled from the party ; and the scheme savoured too much of state socialism to appeal to the industrialists. In a few weeks, von Papen and Hugenberg were jointly back in power. Having apparently decided that the best means of getting rid of the troublesome Nazi movement was to make it share the trials of office instead of permanently enjoying the sweets of opposition, the Right permitted Herr Hitler to become a junior partner in the von Papen-Hugenberg-Schacht coalition.

Then followed the Nazi orgy of "revolution," which has released considerable reserves of ruthlessness and inhumanity. Some, at least, of the leaders, notably Captain Göring and Dr. Goebbels, knew what they wanted. From the

moment the Nazi organisation had been admitted into the government of Germany, the leaders were determined it should hold no inferior position there. A crusade of persecution of the political opponents of National-Socialism gathered irresistible force. The personal popularity of "The Leader" was effectively exploited in the elections of March, and the somewhat convenient burning of the Reichstag and the terrorist suppression of the Communists assisted the return of the Nazis in overwhelming numbers. Adolf Hitler was granted supreme power for four years, and the party set about entrenching itself and its supporters in every available government appointment. An anti-semitic campaign, which revolted foreign opinion everywhere, created a number of official and professional vacancies, which were duly filled by loyal Nazis. Fritz Thyssen was appointed "Supreme State Authority" for the whole of West Germany, and had the pleasure of seeing many of his business opponents humbled by the Nazi anti-Jew and anti-Catholic crusade. Dominant control of the German Steel trust—which had temporarily passed into the hands of the state when the Brüning régime was forced to intervene in order to save the German banking structure—has been gradually restored to the Thyssen group. Other legislation dear to the heart of the big industrialists has been the suppression of the official trade union organisations and confiscation of their funds—a move equally acceptable to the middle-class backbone of the Nazi vote. All political parties, and even the Churches and the Boy Scouts, have since come under the Nazi ban.

In the sphere of economic revival the Nazis have clearly failed to make progress of any kind. Vague projects of compulsory labour and the like have been mooted, but decisive action has been overlooked in the negative enthusiasm of purging Germany of Judaism and Marxism and in removing the last traces of the Weimar Constitution.

Certainly the more far-seeing members of the Nazi-Nationalist coalition—and these, it may be remarked, are not themselves Nazis, nor are they officially connected with the Nationalist party—have pursued an unwavering course in regard to the liberation of Germany from the politico-economic servitude of reparations and standstill agreements. It should be noted that, apart from the official prospective burden of the Lausanne bond issue, Germany is still liable for the annual interest and sinking fund payments on the Dawes and the Young loans, totalling £100,000,000. Her total foreign indebtedness, long-term and short-term combined, is estimated at a figure between £1,200,000,000 and £1,250,000,000 (of which one-third is to the United States and one-eleventh to Britain) ; and the burden of these repayments, if and when German economy revives, must fall on German industry—a prospect by no means palatable to the industrialists. Hence the astute financial manoeuvring of Dr. Schacht to exploit the present stagnation for the purpose of obtaining ever more favourable terms from Germany's creditors. In the space of ten years, Germany reduced the burden of reparations liability from £6,600,000,000 to a doubtful £150,000,000, and the present dictatorship plainly hopes to reduce the commercial liability of £1,250,000,000, within a much shorter period than ten years, to something very much less.

Since the Nazis are evidently determined to brook no rivalry to their political power in Germany, the dictatorship may be purged of its Nationalist element and become purely Nazi in form. Whatever the changes in internal policy, however, there is little room for a change in foreign policy. That will still be dictated by sheer economic necessity, or rather economic self-assertion. For should Germany succeed, by exploiting the jealousies and conflicts of interest of her many creditors, in freeing herself from her present liabilities, her power to compete for what is left of

the world's export trade will be greater than that of any other country in Europe. Her industrial equipment, up to date and rationalised to the last degree, gives her emphatic advantages, which are strengthened by the completeness with which government policy responds to industrial needs. In view, however, of the continued inability of other countries, in existing circumstances, to absorb German industrial exports, it seems probable that the present Junker policy of agricultural self-sufficiency will be maintained for some time to come. By 1935, Germany should be self-contained agriculturally, largely freed from her foreign financial liabilities, possessed of a vast industrial organisation of enormous potentiality—and probably beyond the control of other nations and free to arm at will.

Political events will follow, up to a point, a seemingly independent course. The international political problems of the new Germany are bound up with the progress of events in France, with the course of Franco-Polish relations, with the prospects—deteriorating prospects at the moment—of Italian co-operation, with the future of Nazi rule in Danzig, with the future of the Saar Basin. The Saar may provide the crucial political test of German aspirations. Handed over to the League, under British pressure, at Versailles, its nationality—French or German—will be decided by plebiscite in 1935. It is possible, though unlikely, that autonomy under the jurisdiction of the League will be maintained. If, however, the choice is for Nazi Germany—and the Saar is unquestionably German soil, though its population is almost completely socialist—the mines are to be re-purchased from France at the French price. Propaganda has already begun on both sides, and groups of Nazis have already made a brief appearance on the scene. Nazi intrusion in the Saar is unlikely to compose French alarms, just as the Nazi triumph in Danzig has done nothing to relieve Polish fears.

But the dominating factor in German policy, it must be repeated, is the present trade stagnation and the prospect of trade revival. If there is no improvement, the pent-up emotions of the mass of the population must inevitably spill over into renewed violence, with unpredictable consequences. If trade becomes freer in Europe, the competitive power of Germany cannot be withstood. Employment for the German munition and chemical factories, and control of the sources of raw materials, will then become imperative necessities. The need for new industrial markets has already given rise to the demand, voiced with some bluntness by Herr Hugenberg, for the return of the ex-German colonies; and the persistence of the demand must lead to the further growth of the mercantile marine and the re-emergence of the German navy. In any case, since Germany at present has to import most of her raw materials for industry—iron ore, copper, rubber, petroleum—a policy of self-sufficiency will tend to emphasise her lack of these essentials, and will almost certainly result in external aggression for the recovery, not only of her colonies, but of the ore of Lorraine and the Silesian coalfields. It may be noted that these German imports during 1933 show a marked increase over the figures for the previous year, without any corresponding rise in the total of exports.

With the survival of the dictatorship, and of the psychology of the dictatorship, as revealed in the Nazi doctrine of intolerance of opposition and in Herr von Papen's hymn of praise for the German's hatred of dying in his bed, the world is likely to be faced with a dilemma strangely reminiscent of the years 1906-14. The Allied powers may well seek to combine to protect themselves against the menace of a dominant Germany, and Germany, in order to protect herself against encirclement, may well become still more menacing.

CHAPTER VI

THE UNITED STATES

Introductory

THE RISE of the United States to a position of pre-eminence in world economy is in a sense the outstanding event in the international history of the last eighty or a hundred years. During the half-century before the War, however, the inhabitants of the United States shared the benefits of its rapid economic development with owners of foreign capital, particularly British capital, which, indeed, made such development possible ; while within the United States the distribution of most of the new wealth was markedly concentrated in a few hands. Since the rapidly growing population consisted for the most part of immigrants who had left Europe owing to persecution and poverty, there was little serious political expression of discontent, and labour organisation and socialist thought are, in consequence, conspicuously weaker in the United States than in any other great world power.

Industry in the United States is largely concentrated, as the result of their natural wealth, in the Eastern and Middle Eastern states. The chief financial headquarters of American industry are Pittsburgh, where the Mellon family constitutes a ruling dynasty, and Detroit, the centre of the relatively new motor-car industry, where Mr. Henry Ford battles with General Motors ; while New York shelters the house of Morgan, which controls the United States Steel Corporation, the largest industrial concern in the world. The remarkable development, however, of Pennsylvania

and the eastern seaboard—that is, of American industry—should not obscure the fact that the chief occupation of the United States is still agriculture, to which the whole of the Middle West is devoted. Chicago, the economic capital of the Middle West, has developed, indeed, through its position as the chief market for agricultural produce in America and through its enormous utility corporations (notably the Insull chain), into a jealous rival of New York. For the rest, the Southern States are still the biggest cotton-growing area in the world, and vast mineral wealth, particularly copper, and extensive petroleum deposits are found in several parts of the continent. The combination of all these natural advantages makes the United States, its industrial power apart, the foremost primary producer in the world.

The rapidity of development of the American economy has naturally tended to concentrate control in a series of industrial trusts, while the necessary outlay of vast sums of initial capital in a very short period has vested authority in the ownership of finance-capital. The rise to power of the private banking house of Morgan, for instance, is largely to be attributed to the close contacts it enjoyed in the early days of American development with the sources of capital of the British aristocracy, for whom it acted as agent. This country provided the bulk of the capital for the great American railway boom of the 'sixties and 'seventies ; and, after the collapse of the boom in the 'eighties, it was in the interests, or partial interests, of his British clients that the elder Pierpont Morgan forced through numerous railway consolidations and mergers. The control thus established over railways, which were the largest customers of the steel industry, led to the formation of the U.S. Steel Corporation, as the result of which the financial power of Morgan's was established as paramount in the United States. It was extended to the American Telephone and

Telegraph company, with its numerous subsidiaries ; and, acting as bankers to Du Pont, de Nemours, the chief American firm making munitions, it dominated the armament industry, in which capacity it was prominent in the U.S. Navy League agitation and in the financing of Japanese expansion in Manchuria after 1906. Its position as agent to the British government during the three years of American neutrality in the War enabled the house of Morgan to reap enormous profits by way of commission and through the profits made by the enterprises which it controlled. The nickname for Morgan's of "the Octopus" thus explains itself.

Maintaining little contact with the Morgan interests, a second great grouping in the American economic structure is represented by the Rockefeller interests, which are based upon the Standard Oil trust. This dynasty emerged during the 'eighties and 'nineties. The financial power derived from the huge profits of the oil industry permitted penetration, through the agency of the National City Bank of New York, into a great many other spheres, notably minerals, and an influential line of development embraced South American and overseas connections as markets for oil in exchange for the import of such commodities as tin and sugar. The most important purely mining interests in the United States are represented by the Guggenheim enterprises, which have subsequently been extended to the nitrates of Chile ; while the varied Mellon interests include aluminium and a powerful share, through the Gulf Oil company, in petroleum production.

The party system of American politics is an inevitable outcome of the alignment of internal interests. The Republican party, solid in the Eastern states, has long been known as "the party of Wall Street" and "the party of prosperity"—which it seeks to achieve by increased industrial activity through a high tariff policy and Wall Street

booms. The Democratic party, always strong in the South, which is still at odds with its Northern conquerors in the Civil War of the 'sixties, is traditionally opposed to the Wall Street hegemony—"banker baiting," it may be remarked, is a recognised feature of the beginning of every Democratic term of office—and is regularly returned to power whenever the inevitable slump follows the business boom, being carried to victory by the votes of the agricultural Middle West, which as a rule enjoys only brief benefits from industrial boom conditions. Politically the Democratic party stands for a low tariff policy—designed to stimulate exports, especially cotton—and tends to assert the rights of the separate states against the Federal authority. This latter characteristic of the Democratic party is an important factor in American politics, which, owing to the high degree of legislative independence of many of the states, is in any case marked by extreme parochialism, and results, during a period of business depression, in the subordination of an "American outlook" to local needs.

In illustration of the looseness of the Federal structure there are the peculiarities of the Constitution in regard to the powers of President and Congress. During his four years of office the President exercises, in several spheres, powers which are almost dictatorial. But control of most departments of foreign affairs and of finance is rigidly held by Congress. As evidence of this remarkable division of authority there is, on the one hand, the freedom which President Wilson enjoyed at Versailles and the action of Congress in promptly disowning his works and refusing adherence to the League of Nations; on the other, the powerlessness of both President Hoover and President Roosevelt before the will of Congress in the matter of war debts. On both these issues the unanimity of Congress proceeded from its essentially local allegiance and

indifference to "national" ends. What may be called the constitutional parochialism of American politics is assisted by the biennial elections for the House of Representatives, whereby the members of this lower house of Congress, continuously harried by the prospects of re-election, cannot fail to register a purely local decision. Thus, although the Democratic party is less national-minded *as a party*, a Republican majority in Congress is not more capable than a Democratic majority of pursuing a national policy.

The parochial traditions of the American political system have been carried over into a main department of economic life—the banking system. The jealousy of New York has prevented the growth of branch banking on the lines customary in Europe, and has helped to produce instead a large number of small independent banks operating only in their own locality and thus peculiarly susceptible to the fluctuations of fortune of the particular commodity or industry identified with that locality. The Federal Reserve system, which was established just before the outbreak of war, was intended to provide a national unit of credit control; but the appointment of its officers has been notably influenced by political considerations, and its activities have been governed less by national needs than by sectional state needs and have been marked in general by hostility to the great banking houses of New York. In actual practice this has meant that, on the whole, the Federal Reserve Board has chosen, in the course of its credit policy, to ignore international factors in favour of purely domestic factors.

Finally, in considering the rival merits of the Democratic and the Republican parties, it should be realised that, in point of fact, both parties tend to pursue a similar line of economic policy, especially in the field of foreign affairs. This tendency, of course, is characteristic of party government in the case of all the great powers in the modern

world, but is specially characteristic of the United States, where both party machines are nowadays controlled, in the final analysis, by financial interests, and where it is not unusual for both parties to receive simultaneous contributions during an election campaign from the same corporation or individual. This side of the political picture has been brought into prominent notice in recent months by the Senate investigation into the transactions of the house of Morgan, which revealed, in a Morgan "special favour list," the names of a number of leading politicians of both parties.

The New Imperialism

Post-war America differed from pre-war America in that, during the interval, it had become the property of its inhabitants—or at least of some of them. Expressed in figures the difference was this: in 1913 the United States owed Europe 5 billion dollars, and in 1920 Europe owed the United States 4.3 milliard dollars in commercial debts and 8.5 milliard dollars in war debts. The suddenness of this national transformation from the status of debtor to that of creditor has no parallel in history.

The economic change naturally found its appropriate expression in the political sphere. Since 1915, when there were signs that the war pre-occupations of Britain and Germany were likely to be prolonged, the United States had conducted a policy of economic expansion, chiefly in the form of industrial exports to the markets hitherto served by British and German trade. With the increasing strain of financing the war, London was no longer able to perform its pre-war function of financier to the world's trade, and as early as 1917 £80,000,000 of South American commerce had come to be transacted in dollar exchange. The growth of its foreign trade contacts permitted the rise of New York as a financial centre, and with the rapid elimination of its

external indebtedness a surplus became available for foreign lending and was employed to obtain further trading advantages. The entry of the United States into the War, which was greatly assisted by the inability of American armament firms to sell their goods with adequate security for payment except to the home government, created huge industrial profits, which swelled the total available for foreign lending. The lead in the general policy of expanding the sphere of U.S. markets for both manufactured goods and government loans was taken by the National City Bank (Standard Oil), which formed the American International Corporation for the purpose of operating in South America and of absorbing the chief American pioneer bank in the East. This new organisation centralised American foreign development.

The somewhat vague international policy of the Democratic President Wilson having been duly thrown overboard and the League of Nations abandoned to a seemingly moribund Europe, the Republican Administration of President Harding embarked upon an alternative ideal of "Pan-Americanism," this being in effect an elastic economic interpretation of the Monroe Doctrine and denoting a scheme of leaguering North and South America under the leadership of the United States. At the same time the Administration insisted upon the payment of war debts from the Allies as a means of financing this ideal. After a brief slump, caused by the need for readjusting war industries to peace-time requirements, United States economic activity returned to "normalcy" and expanded rapidly, particularly into Canada, Brazil—a former sphere of British financial influence which was soon persuaded, in return for U.S. loans, to withdraw from the League—Peru, Chile, Bolivia and, lastly, the Argentine, a British stronghold, which, in spite of considerable financial help from New York, displayed strong opposition to the Pan-American policy.

In the Far East, American expansion involved direct conflict with Japan, another power which had benefited by the war pre-occupations of Britain. The vigorous Japanese policy of commercial penetration of China had the support of a large and threatening programme of naval construction, and this country, as a consequence, was no less vitally concerned in the matter than the United States. On the latter's initiative the Washington Conference was convened, in 1920, with the perfectly obvious intention of limiting Japanese expansion, the immediate aim of the United States being to ensure the "open door" for American trade in the Pacific, while the foremost pre-occupation of Britain was with the naval aspect of both Japanese and United States aggression. The agreement reached in 1921 fixed a naval ratio of 5:5:3 for Britain, the United States and Japan respectively, and it was mutually resolved that no territorial aggression on China would be recognised.

The principle of the open door in the Far East having been recognised, United States insistence upon the validity of the Monroe Doctrine in the Americas was a further safeguard, and was expressed economically by the rise of tariffs. The Department of Commerce, reorganised in 1921 under the direction of Mr. Hoover for the purpose of facilitating American economic expansion abroad, gave every encouragement to the American exporter. The United States enjoyed, at that period, what was practically a world export monopoly of the new industries of mass production—motor cars, gramophones and, later, wireless, etc.—and these industries and the rapidly developing film industry created a vast U.S. export surplus. Thus began the era of American prosperity—"Coolidge prosperity" after the death of President Harding, and "Hoover prosperity" after the Coolidge variety. These years mark the great period of power of the Republican party and the triumphant domination of the great financial-industrial interests, as

evidenced, for instance, in the composition of President Hoover's Administration, which included Mr. Mellon (Pennsylvania) as Secretary to the Treasury ; Mr. Robert Lamont (a Morgan associate and steel magnate) as Secretary of Commerce ; and General Dawes, representing the Chicago financial interests, as chairman of the Dawes Committee and later as Ambassador in London. The war debt settlement with this country, negotiated in 1923 by Mr. Mellon and Mr. Baldwin, was highly satisfactory from the American point of view, and made its small contribution to the peculiarly American process, in Mr. Hoover's unhappy phrase, of abolishing poverty.

The entire period 1921-28, which witnessed the remarkable progress of American trade and industry, was one of deepening conflict of interests between the United States and Britain, which had sufficiently recovered from war exhaustion to be able to make a determined effort to regain her former financial prestige and lost markets. The conflict derived added severity from this country's return, in 1925, to the gold standard, as the result of which Britain regained—though at a considerable and perhaps fatal cost—her competitive power in the sphere of international finance. The Anglo-American clash of economic interests covered a great many fields, and was particularly obvious in South America. It will be necessary here to summarise in turn some of the main sources of conflict.

Oil provided what was, in many respects, the bitterest conflict of all. American oil interests (themselves engaged in intense competition), headed by Standard and Gulf, sought the open door in the South American republics, in Iraq, in Rumania, in Persia. In opposition to them was the Royal Dutch-Shell group (which eventually absorbed the Anglo-Persian), constituting a predominantly British *bloc* drawing its sources from outside the United States. The struggle between American and British interests raged

hottest in Venezuela, but was only a degree less marked elsewhere. American opinion awarded the spoils of victory temporarily to the British group, which successfully penetrated into the enemy's territory by the purchase of U.S. oilfields and by the formation of the Shell Union for distribution in the U.S. market. But that was scarcely the end of the matter. The entire post-war history of the politics of oil makes a long and peculiarly sordid story, which is characterised by charges made on each side that the other has resorted to the promotion of revolutions, brigandage, sabotage and worse in pursuit of its ends. Fragments of the story have been told in detail several times in recent years, and from several different points of view. The internal manoeuvres of American oil interests, it may be added, have produced a pretty crop of scandals, of which the Teapot Dome affair is the most celebrated.

A second and equally significant aspect of Anglo-American trade rivalry during these years is concerned with rubber. There is no supply of rubber, which is chiefly utilised in the car industry, in the United States. Control of the world market was held by British interests in the Federated Malay States, which accounted for 75 per cent of the world's output. As the result of the Stevenson restriction scheme of 1922, the price of rubber was forced up and the American car industry was virtually held to ransom; America has paid as much as 4s. a pound for the commodity, whereas the price has fallen in recent months to as little as 1½d. The restriction scheme collapsed towards the end of 1928, when British control had sunk to just over 50 per cent of the world output, the high price having brought in Dutch and Chinese production. This afforded considerable relief to the United States car industry. It should be noted, however, that there had already been two American attempts to obtain an independent supply of rubber. In 1927, Mr. Henry Ford bought up Para, a huge tract of Brazil,

for the purpose of rubber plantation (operations are at present suspended), while the Firestone Rubber company, a manufacturing concern, having gone to Liberia in the previous year, assumed control of the local authority by financial means and proceeded to develop rubber plantations. From this latter venture arises the anxiety of the League of Nations regarding the conditions of slave labour prevailing in Liberia.

A third cause of conflict, and of collaboration that is in some ways more regrettable than conflict, concerns tin, which is required for the rapidly growing canning industry, and which is also an essential material for the car industry. The course of events here is a little involved. The United States is by far the largest national consumer of tin, utilising more than half the world's total production. The metal is obtained from British sources in Malaya—the largest sources of all—from the Dutch East Indies, from Bolivia and, in small quantities, from Nigeria. United States intervention in Bolivia, from 1921 onwards, was almost a matter of course, but was achieved only at the cost of heavy loans which, in addition to the enormous capital outlay involved in developing the Bolivian mines, resulted in abnormally high-cost production. The attempt of certain British interests to rationalise the tin industry and, by syndicate operations, to maintain a high world price, was not disagreeable to the American (Guggenheim) interests in Bolivia. In the summer of 1929 proposals for world control of tin production and smelting were actively developed under the leadership of the newly formed British-American Tin Corporation. With the subsequent formation of the British Tin Producers' Association, of which the chairman was Sir Philip Cunliffe-Lister (the present Secretary of State for the Colonies), the low-cost Malayan producers were unwillingly brought into the restriction scheme, which chiefly benefited the high-cost producers, notably the American-Bolivian

Guggenheim-Patino-National City Bank group. By 1930 a world restriction scheme was enforced which emphasised the hardships imposed on the cheap Malayan producers. The latter could completely satisfy world requirements by themselves at the relatively low cost of £140—£160 per ton, but they are not permitted to do so by the pool, which has raised the price, at the moment of writing, to £220 per ton. Anglo-American conflict here has been resolved, in short, only by the creation of a perfectly fictitious world shortage of tin.

A brief digression here in explanation of the recent warfare between Bolivia and Paraguay may not be out of place. Bolivia, a land of great mineral wealth other than tin, possesses no seaboard, while the only available railways to the Pacific coast are British-owned. It is the American-Bolivian anxiety to obtain an alternative outlet—down the Paraguay river—to the Atlantic which accounts for the incessant frontier struggle between the two republics. Suggestions have not been lacking that both United States and British interests have made their contribution to the armed struggle.

Oil, rubber and tin have been considered, and the next commodity on the list is copper. Here the United States, owing to a world monopoly of production and refining that was only qualified by production in the Belgian Congo, has been able to retaliate against Britain. The American Copper Exporters' Association, by artificially raising the price to nearly £100 per ton, has severely penalised the British electrical industry. The inevitable British search for copper has centred in Canada, through the International Nickel Company, and in Rhodesia, where the production stage has already been reached. There was an abortive American attempt, led by the Morgan interests, to gain control of potential Rhodesian production, but control of the Rhokana Corporation remains, through the Rio Tinto company,

with the British Rothschild interests, though the United States still holds a considerable stake in Rhodesian production.

The next and tremendously influential item of American-British trade rivalry is cables, which are of great strategic, commercial and diplomatic importance in the modern world. The pre-war British cable monopoly proved a severe handicap to the developing American industry, and the post-war epoch has been characterised by an aggressive American policy of cable construction and purchase. A notable example of the latter was the purchase from British interests of the South American United River Plate Telephone company, this being effected, through Morgan's, by the International Telephone and Telegraph company which, floated in 1920 for the development of Latin America, was combined, in 1925, with the American Telephone and Telegraph company for the purpose of creating a world-wide monopoly of communications. The Morgan influence, always prominently associated with the Republican party, made itself felt in the distribution of foreign loans, and thus led to American pressure on foreign governments to secure monopoly contracts in all parts of the world.

The attempt to create a complete U.S. monopoly caused intense friction, needless to say, with established British interests, and also encountered the rivalry of the Swedish Ericsson company, which chiefly operated in the Balkan countries. As a measure of defence, the British cable companies were rationalised, in 1928, at the request of the British Treasury and of the Committee for Imperial Defence, into Imperial and International Communications (whose operating company is popularly known as Cables and Wireless), the chairman of the new company being Sir Basil Blackett, who was also the Treasury representative and a director of the Bank of England to boot. As for the Swedish Ericsson company, this soon came under the

control of Ivar Kreuger, whose competitive relation to the Morgan interests was destined to take a catastrophic turn.

Within two years of its formation, Cables and Wireless, a £50,000,000 concern, had lost, if one may judge by share valuations, nearly half of its capital. This was due, in the first place, to the fact that its creation pretty well coincided with the severe contraction in international trade, though the loss was undoubtedly assisted by American competition. More recent events have strengthened the necessity for drastic capital reconstruction of the concern. The International Telephone and Telegraph company, however, is also in dire straits to-day, this being due not only to the general contraction of trade but also to the freezing of its numerous foreign interests in Europe, Asia and South America.

As a consequence of the American cable and telephone monopoly, with consequent orders for construction, intimate business relations were established with many foreign governments, with obvious repercussions on American foreign policy. An illuminating sidelight on this state of affairs is provided by the deliberate wrecking of the I.T.T. exchange at Madrid on the outbreak of revolution in Spain. An even more illuminating sidelight, though of a different kind, is provided by the downfall of Ivar Kreuger. The I.T.T. and the Ericsson company were engaged in particularly sharp competition in Rumania, where both offered loans in return for the telephone monopoly, Kreuger seeking in addition a match monopoly. The Rumanian contract which he received was short-lived. Having become hopelessly involved in government loans all over the world, and finding himself totally unable to raise money, he appears to have offered to cease competition with the I.T.T. in return for Morgan support for his, Kreuger's, political loans. A working arrangement was temporarily established, but Morgan support was withdrawn on the discovery that

the Ericsson balance-sheet figures were fictitious. Kreuger committed suicide within a fortnight of the discovery.

The sources of American-British commercial hostility have by no means been exhausted, but it may be sufficient to instance shipping competition in conclusion. The United States attempt to build up, by means of government subsidies, a mercantile marine in proportion to its foreign trade had grave effects on British shipping interests, already badly damaged by the revival, which was assisted by extensive U.S. loans, of the German mercantile marine, and on this country's invisible exports in general. The U.S. government's policy of shipping subsidies has evoked loud protests of "unfair competition" here, to which the intense individualism of British liner services has provided a suitable stimulus.

All these forms of deepening commercial rivalry have had their inevitable effect on American political relations with Britain, which have scarcely developed in accordance with the conventional sentiments and professions of trust expressed by responsible politicians on both sides of the Atlantic. It is essential to remember, however, that although commercial rivalry has been paralleled, to a certain extent, by financial rivalry, there has also been a marked degree of co-operation between both countries in the financial sphere, more particularly between the Federal Reserve authorities (during the régime of Governor Strong) and the Bank of England. This collaboration, it may be marked, did not pass without severe criticism from Wall Street interests, which particularly resented the Federal Reserve's hostility to speculation, ascribing this hostility to the malign influence of the notoriously deflationary Mr. Montagu Norman. It is noteworthy that, after the collapse of 1929-30 and the death of Governor Strong in the early part of

the latter year, co-operation between the Federal Reserve and the Bank of England became markedly less intimate. Until then, however, it may be accounted for, first, by a degree of traditional financial collaboration between the two countries—expressed, for instance, in the British bias of Morgan's ; secondly—and more important—by the common hostility of the financial interests of both countries to the peculiarly *sectional* line of attack of the financial and financial-political power of France.

United States financial, as distinguished from commercial, expansion abroad covered a no less comprehensive field. It had its origin, of course, in the rapidly growing surplus arising from U.S. exports available for re-investment. Mr. Hoover's relief plans in Europe, after the cessation of hostilities, had helped to discover new American markets as well as to popularise the United States. As the head of the newly organised Department of Commerce, he had proceeded to appoint commercial attachés overseas to discover openings for American trade, their task being facilitated by an extremely efficient statistical survey of world markets. The effect of American films, in demonstrating the new truism that trade follows not the flag but the film, had been to contribute still further to the American surplus available for re-investment. By 1923-24 the home market was becoming saturated, and outlets for overseas investment were essential to maintain the pace of capitalist expansion. A continuous search for foreign sources of investment now set in. South America was a fairly obvious hunting-ground, but Europe provided a no less extensive field for the export of capital, and Germany, Poland, Italy and Spain were the principal countries favoured. In Asia there were both Persia and China which served the cause of U.S. financial development. The process of American foreign lending grew like a snowball. By 1929 the total amount of United States investments abroad had reached

the figure of \$16,000,000,000, of which one-third was in South America, a quarter was in Canada and another quarter in Europe. A significant political consequence of the far-flung range of U.S. foreign investments was the attempt to stimulate European disarmament by means of the Kellogg Pact, which was signed by the chief nations of the world in Paris in 1928. If the Pact had had the success it was hoped it might have and a measure of disarmament had resulted, the effect would clearly have been to place greater security of tenure and larger budgetary surpluses in Europe behind U.S. European investments.

American capital investment in Germany, prefaced by political intervention and heralded by the Dawes Plan, has already been dealt with from the German side. It reached its height in 1927, but did not cease until the American financial crisis had got well under way during 1930. A point of decisive importance to be borne in mind is that there was a complete lack of liaison in the progress of American investment. The banking firms interested in financing German industry, for instance, were by no means the same firms that had floated reparation loans. The whole of this period, indeed, was characterised by the emergence of a number of new private banking concerns which, by the adoption of none too scrupulous methods of salesmanship, seemed about to threaten the hegemony of Morgan's. There was, in any case, a fairly clear conflict of interest between Morgan's on the one hand and such firms as Dillon, Read and Co. and Lee, Higginson on the other. It may be noted in this connection that although Mr. Parker Gilbert, the agent-general for reparations, had close ties with Morgan's (of which he eventually became a partner), it was Mr. Albert H. Wiggin, chairman of the Chase National Bank (of which Mr. Clarence Dillon, head of Dillon, Read, is a director), who took the lead in the negotiations on Germany's commercial debts in 1931.

The lack of liaison in American investment in Europe is further illustrated by the fact that it was spread over countries pursuing, in several cases, sharply antagonistic economic policies—for example, Germany *and* Poland. This, again, resulted in a conflict of financial interests at home, with a marked diversity of pressure on U.S. political policy in Europe.

A significant feature of U.S. investment in South America was the purchase, at very high prices, of several important British concerns in the Argentine, this being effected with the object of diverting orders for industrial equipment from Britain. The profit on the sales made by this country was, indeed, seriously counterbalanced by a loss to British industrial concerns. U.S. intervention in the Argentine, however, as has been pointed out, yielded few positive advantages, unlike intervention in Brazil and the political loans to Bolivia. The course of events in Chile was somewhat dramatic. Towards the end of the period of American financial expansion, the Chilean nitrate industry, upon which the country was chiefly dependent and which had been created in the first place by Anglo-French capital, was feeling the combined effects of the German invention of synthetic nitrogen and the alarming growth of world agricultural depression. The Guggenheim interests, which had originally come to Chile for copper, formulated a grandiose scheme for rationalising the entire industry into the vast Cosach trust, which was duly floated in 1929 and rendered almost worthless within a few months of the event by the deepening of the agricultural depression and its hopelessly top-heavy capital structure.

The general drift of United States investment in the Americas—that is, in Canada and South America, which together received seven-twelfths of the total U.S. export of capital—may not unjustly be described as the attempt to give economic expression to the Monroe Doctrine through

the creation of a solid *bloc* against Britain. There is no need to impute malevolent intentions to the United States on this score. The attempt was a logical outcome of what is still described, though perhaps not so frequently as in the past, as "the free play of economic forces."

The Morning after Prosperity.

American loans to the rest of the world were floated by the great banks, both private and public, and peddled out by the latter to the American public through the security corporations affiliated to the banks. The relation of these security corporations to the banks—which is a peculiarly American phenomenon—permits a bank to use its resources—that is, bank deposits—as a means of maintaining the market quotation of the securities issued through its subsidiary. In other words, the great U.S. banks are, in point of fact, large-scale operators on the Stock Exchange. This remarkable system, aggravated during 1928–29 by the formation of dummy investment trusts and mushroom syndicates, permitted gross inflation of stock and bond market values, into which the public of every class invested their savings. Hence the crippling effects upon the entire investing community when the boom was broken.

The eagerness, moreover, with which new issues were absorbed by the gambling public caused intense competition for the privilege of issuing them. Numerous borrowers, whose financial status rendered them quite unfit to assume further burdens—governments of the South American states and German municipalities, for example—were cajoled into accepting new loans; while in some cases loans were issued at 8 per cent to redeem previous issues at 6 per cent, in order to enable bankers to obtain their commission. Mr. Otto Kahn, of Kuhn, Loeb and Co., has recently

testified, in the course of the Senate enquiry into his firm's affairs, that at one time there were representatives of no fewer than fourteen U.S. banking houses in Belgrade seeking the right to issue a Yugoslavian loan.

The crazy structure of U.S. foreign investment was paralleled in the structure of the newly expanded home industry, which tended more and more to be controlled by Wall Street operators rather than by industrialists. Industrial and business concerns, old and new, were increasingly characterised, as the boom developed, by unsound capital organisation, expressed in recklessly inflated stock issues. By 1929 the character of American industry had undergone vital change as an inevitable consequence of the boom. Its partnership, so to speak, with finance-capital had either been dissolved or had become a very junior affair ; industry had now passed directly into the hands of financial interests, particularly the big banks. By far the major part of U.S. industry, already organised into mammoth units before the War, had now been brought within three or four tightly interlocking groups, in which financial power was in every case supreme.

Of the new industries, motor manufacture was, perhaps, the most profitable. The Morgan coalition of U.S. Steel and Du Pont, de Nemours absorbed the huge General Motors Corporation, of which Mr. Du Pont, head of the armament concern, became chairman ; and this group later expanded into aviation, absorbing the Fokker and Bendix aeroplane construction concerns. Alone among the great car manufacturers Mr. Henry Ford eluded trustification, though his determination to escape cost him a grim and very nearly mortal battle with the bankers.

The Morgan sun shone also upon the American film industry, which remained the property of its founders only during its " silent " existence. The development of talkies

from 1928 onwards enabled Wall Street interests to intervene through Western Electric, a subsidiary of the Morgan-controlled American Telephone and Telegraph company, and through the Radio Corporation of America, a merger of the new wireless and gramophone industries controlled by the American General Electric. The original owners of the film industry in some cases sought to emulate Mr. Ford in his refusal to yield to financial dominion, and the ensuing struggle, combined with the boomerang effect of the talkies—which automatically destroyed the international market of the silent film—helped to make the bankers' ultimate victory a Pyrrhic one. It may be permissible here to leap forward a year or two in the story in order to observe that the Chase National Bank, which took the leading part in a grandiose project to form one vast motion-picture trust, did in fact secure control of many of the chief units by 1932. Unfortunately, owing to the fall in the estate values of cinema chains and the competition of new national units of production in Britain, France and Germany, the U.S. industry had by that time been reduced to a state of actual bankruptcy.

Nevertheless, in 1929 the nation-wide optimism, deliberately fostered by the Republican party's propaganda, showed no sign of abating. There were few qualms for the future of American prosperity, and new mergers and groupings in industry continued to offer opportunities for the issue of new stock. This lunatic financial structure of U.S. industry, bearing as it did little or no relation to its actual necessities and capacities, was vulnerable enough before 1929. The crash that was precipitated on October 24 of that year had two contributory causes that need to be noted at this point. First, U.S. industry, or at any rate a great part of it, was so new that no adequate reserves had been built up—as was the case, for instance, with British or French industry; it had, indeed, been the general

American practice to distribute almost the entire profits in order to maintain market quotations and to present good prospects for new mergers. Secondly, there was the widespread American practice of fixing no par value for common stock. This was a notable factor in facilitating the efforts of bond salesmen and stimulating the boom, but it was, alas ! also responsible for the spectacular and horrifying nature of the crash.

While the bankers and Wall Street operators netted huge paper profits, the farming community were experiencing a steady fall in agricultural prices and general agrarian depression in the Middle West. The fall in prices had been greatly aggravated by the bumper harvest of 1928, and the proposals of the Middle West politicians for state aid to agriculture in the form of export bounties, etc., were all flatly rejected by the predominantly industrial Republican Administration, which had no objection to a low cost of living for industrial workers. (This attitude to agrarian distress in the midst of industrial prosperity was responsible in no small measure for the heavy anti-Republican vote of the Middle West in the elections of 1932.) Here was a factor in the American situation which awaited only the breaking of the boom to make itself felt throughout the continent.

In the summer of 1929 the speculative boom in common industrial shares reached a pitch of frenzy, and, owing to the world rush to invest in Wall Street issues, began to make severe demand on the world's available finances. This turn of events was viewed with alarm by the more orthodox United States bankers, whose point of view was shared by the traditionally "sound" Mr. Montagu Norman. The latter, owing to the steady drain of funds to the United States and the consequent necessity for maintaining a high bank rate to counter-attract funds to London, was compelled, in July, to visit New York. The Federal Reserve authorities had now embarked upon a

from 1928 onwards enabled Wall Street interests to intervene through Western Electric, a subsidiary of the Morgan-controlled American Telephone and Telegraph company, and through the Radio Corporation of America, a merger of the new wireless and gramophone industries controlled by the American General Electric. The original owners of the film industry in some cases sought to emulate Mr. Ford in his refusal to yield to financial dominion, and the ensuing struggle, combined with the boomerang effect of the talkies—which automatically destroyed the international market of the silent film—helped to make the bankers' ultimate victory a Pyrrhic one. It may be permissible here to leap forward a year or two in the story in order to observe that the Chase National Bank, which took the leading part in a grandiose project to form one vast motion-picture trust, did in fact secure control of many of the chief units by 1932. Unfortunately, owing to the fall in the estate values of cinema chains and the competition of new national units of production in Britain, France and Germany, the U.S. industry had by that time been reduced to a state of actual bankruptcy.

Nevertheless, in 1929 the nation-wide optimism, deliberately fostered by the Republican party's propaganda, showed no sign of abating. There were few qualms for the future of American prosperity, and new mergers and groupings in industry continued to offer opportunities for the issue of new stock. This lunatic financial structure of U.S. industry, bearing as it did little or no relation to its actual necessities and capacities, was vulnerable enough before 1929. The crash that was precipitated on October 24 of that year had two contributory causes that need to be noted at this point. First, U.S. industry, or at any rate a great part of it, was so new that no adequate reserves had been built up—as was the case, for instance, with British or French industry ; it had, indeed, been the general

American practice to distribute almost the entire profits in order to maintain market quotations and to present good prospects for new mergers. Secondly, there was the widespread American practice of fixing no par value for common stock. This was a notable factor in facilitating the efforts of bond salesmen and stimulating the boom, but it was, alas ! also responsible for the spectacular and horrifying nature of the crash.

While the bankers and Wall Street operators netted huge paper profits, the farming community were experiencing a steady fall in agricultural prices and general agrarian depression in the Middle West. The fall in prices had been greatly aggravated by the bumper harvest of 1928, and the proposals of the Middle West politicians for state aid to agriculture in the form of export bounties, etc., were all flatly rejected by the predominantly industrial Republican Administration, which had no objection to a low cost of living for industrial workers. (This attitude to agrarian distress in the midst of industrial prosperity was responsible in no small measure for the heavy anti-Republican vote of the Middle West in the elections of 1932.) Here was a factor in the American situation which awaited only the breaking of the boom to make itself felt throughout the continent.

In the summer of 1929 the speculative boom in common industrial shares reached a pitch of frenzy, and, owing to the world rush to invest in Wall Street issues, began to make severe demand on the world's available finances. This turn of events was viewed with alarm by the more orthodox United States bankers, whose point of view was shared by the traditionally "sound" Mr. Montagu Norman. The latter, owing to the steady drain of funds to the United States and the consequent necessity for maintaining a high bank rate to counter-attract funds to London, was compelled, in July, to visit New York. The Federal Reserve authorities had now embarked upon a

policy of "dear money" to discourage speculation—a policy which elicited outspoken condemnation from Mr. Charles Mitchell, chairman of the National City Bank, who detected no love for Wall Street in the Federal Reserve's attitude. Further, new powers had emerged, as has been indicated, to threaten the hegemony of the house of Morgan, among them the Chase National Bank (which, after its merger, early in 1930, with the Equitable Trust company, became the largest bank in the world), to which the Rockefeller interests were gradually being transferred from the National City Bank, which had expanded into rather too many diverse fields. Now one of the chief specialities of Morgan's was fixed interest-bearing government bonds—that is, issues carrying no speculative appeal and representing genuine financial needs. The increasing difficulty, therefore, in obtaining support for unspeculative loans was not only becoming extremely burdensome to governments, but was severely limiting the scope of activities of the house of Morgan. This phenomenon, it may be noted, finally elicited from the Secretary to the American Treasury the delphic statement that gentlemen must learn to prefer bonds.

During the summer and autumn the demand for money for speculative ventures raised interest rates throughout the world to dangerous heights, and a few observers began to suspect that a crash was imminent. After the Bank of England rate had been raised, in September, to 6½ per cent and the Hatry crash had unsettled the City, the *coup de grâce* was administered by a speech of Mr. Robert Lamont (a Morgan associate and U.S. Secretary of Commerce) at a Republican party banquet attended by all the leading Wall Street figures. The speech, which was not reported in the Press, depicted the future of the United States in so depressing a light that huge selling orders, from both speculators and holders anxious to unload before the deluge, followed the

next morning. The whole Wall Street house of cards ominously shaky for some weeks before, collapsed spectacularly overnight, the fall in stock prices being in numerous cases as much as 30 per cent. In the words employed by Mr. T. W. Lamont (a Morgan banking partner) to newspaper reporters, there had been "a little distress selling."

The crash, although reminiscent in some features of the great crash of 1907—which was likewise precipitated by J. P. Morgan senior in the interests of "sound finance"—was, in point of fact, only an intelligent forecast of the inevitable contraction of American trade and profits. Wall Street quotations had been based upon fantastically optimistic hopes of continued industrial expansion—hopes which were in flat contradiction to the realities of the world situation. For the rise of tariff barriers abroad and the growing power of foreign competition were inevitably taking their toll of American prosperity. Britain, for instance, had been highly successful in copying American mass-production methods in the car industry, and her competing power with the U.S. export trade was only one of a dozen similar factors affecting the future of American industrial development. A further factor in the American situation of steadily increasing importance was the inability of foreign debtors to make interest payments, this being due in the first place to the accelerating fall in agricultural commodity prices. It may be said, in short, that the United States had actually become poorer in 1929, not richer, in comparison with 1928 or 1927, but was unwilling to believe the fact.

The initial shock to the stock market, precipitated by speculative "bear selling," proved conclusively enough that the bears had been right. But they had been more right than they knew. The overnight fall in stock prices was only the beginning of a long descent. The collapse, begun in spectacular fashion in an attempt to squeeze out many of the shaky newcomers to the Wall Street field of battle and to

reassert the Morgan hegemony, was a protracted affair. After the initial slump, Morgan's formed a pool to support the market on terms ; but, following upon the briefest of recoveries, prices continued to fall from day to day, until it seemed incredible that they could go on falling. But the incredible happened, and stocks sank steadily downwards. For at least six months after the first warning the American public did not lose confidence, preferring to believe that the lull in prosperity would be succeeded by yet another tide. Artificial methods of maintaining boom conditions included a still more intensive stimulation of hire purchase, the raising of internal tariffs to secure an increasing share of the home market, and the formation of a Federal Farm Board, which aimed at raising agricultural commodity prices by taking a large part of American wheat production off the market. This last creation was due to the alarm of the Administration at the rise of anti-Republican feeling in the Middle West. All these measures proved ineffectual. The decline of October 1929 continued all through 1930, and the slow disillusionment of the first few months now became a drawn-out agony.

The decline was accelerated by the rapid fall, due to "over-production," in world commodity prices—which was of special importance to the United States in its capacity of the world's biggest primary producer—and by the increasing number of bank failures in the agricultural West and Middle West, where the inability of the farming community to make payment on their mortgages often deprived the local banks of their entire trading resources. On top of everything else, the high-g geared post-war U.S. industry was inextricably caught up in the general course of events. Organised on mass-production lines so that it could show a profit only when an enterprise was working at maximum, or at any rate very high capacity, industry suffered increasingly through lack of turnover and the

particular difficulties created by the loss of car markets, the sudden problems of the talkies, and so on. Simultaneously, the continued fall in real estate values imperilled the insurance firms and all securities, and this in turn augmented the fall in stock prices.

The next phase was marked by American withdrawal of funds from abroad to meet internal needs, which in turn helped to accelerate the internal collapse in Germany. The yearly average of the total amount of American foreign investments from 1919 to 1923 has been estimated at \$685,000,000. For 1924—the year of the Dawes Plan—the total was \$1,217,000,000. The peak year was 1927, when the export of U.S. capital reached the figure of \$1,577,000,000, after which it declined, in 1929, to \$706,000,000. So far as Germany was concerned, of the total amount of foreign loans she had received by December 1930, 55 per cent of the long-term credits and 37 per cent of the short-term credits had been contributed by the United States. The Hoover moratorium of June 1931, following upon considerable U.S. withdrawals from Germany, was therefore an attempt to salve the remaining American interests in Germany.

The consequent “standstill” agreement formalised through the Wiggin Committee of the Bank for International Settlements—there had been private negotiations in the first place—was the first link in yet another hopeless chain of events. Much of Britain’s financial capital having been “frozen,” she became insolvent on a gold basis, and proceeded to abandon the gold standard, thereby hampering still further, through the power of the depreciated pound, U.S. exports. Meanwhile a new menace presented itself to American economic life as the result of the U.S. adventure into European politics, which was itself the outcome of U.S. financial expansion into Europe. The desire of American bankers to facilitate German interest payments

to the United States implied a corresponding anxiety for the revision of reparations ; and France, which would not hear of revision, now proceeded to employ her financial weapon against the United States by threatening to withdraw gold. The upshot of the visit of M. Laval, in October 1931, to Washington was that the Administration undertook to refrain from pressing the revision of "inter-governmental debts," and to make no further move at all in the matter without consulting France in advance.

Depression deepened throughout 1932, and a notable factor in the worsening of American conditions was the revival, through the depreciated exchange, of British competitive power. This made itself felt with special force in the car industry. In 1932, American car production was no more than a quarter of that of 1929. The output (in both the United States and Canada) of General Motors, for instance, which had been five and a half million vehicles in 1929, sank to two and a half million vehicles in 1931 and one and a half million in 1932. The actual earnings for 1931 and 1932 of the great industrial corporations showed even more alarming figures. Such further factors as the breaking of the U.S. copper monopoly and the almost total collapse of the U.S. nitrates scheme intensified the catastrophic process of slump.

The effect of this succession of blows was reflected in the tremendous growth of unemployment and in an ever-increasing budgetary deficit. Alarming symptoms of internal collapse became visible in the shape of municipal and state bankruptcies, the spread of gangster violence and the threat of the war veterans' march on Washington. The menace to the Republican party—"the party of prosperity"—of the approaching Presidential election prompted combined action on the part of the Administration and Mr. Hoover's industrial and financial advisers. An attempt was made to stage a recovery campaign by setting up a

Reconstruction Finance Corporation for the purpose of assisting the weaker brethren among the banks, and of advancing loans to stricken enterprises which could not otherwise obtain funds on their own credit. A brief boom took shape during the summer of 1932. But the strain on the resources of the Reconstruction Finance Corporation proved too great, and the boomlet subsided. The depression was as profound as ever—markedly more profound, in fact—by the winter.

The optimistic attitude of the Administration during the early part of the summer had, however, encouraged the European debtors of the United States to assume that war debt payments in the following December would be remitted, and that a final solution of the entire problem of war debts, probably in the form of complete cancellation, would follow. Such, indeed, was the hypothesis on which the Lausanne agreement, with its virtual cancellation of reparations, had been reached. But the failure to effect a business recovery in the United States, *plus* the immediate anxieties arising from the unbalanced budget, *plus* the refusal of the electorate (through Congress), in face of their own burdens, which had become more crushing than ever, to entertain the thought of cancellation—all these factors compelled the Administration to demand payment in December. This country paid under protest, and France blankly refused to pay.

Meanwhile preparations for the Presidential election had got well under way. The issue of a "wet" or "dry" America had served as a convenient mask for the politics of the congressional elections, and the studious avoidance, on both sides, of any policy at all now characterised the Presidential election. The overwhelming vote for Mr. Franklin D. Roosevelt was not so much a vote of confidence in him as an expression of debtors' disgust with the Hoover régime. Before the new President could take office, the

depression entered upon yet another phase with an intimidating rise in the number of bank failures, culminating, on the last day of the Hoover régime, with the closing of all the New York banks. The first act of the Roosevelt régime was to proclaim the following day a national bank holiday.

By March 1933, when the U.S. steel industry was running at only 14 per cent of its capacity, and the price of wheat, which had averaged 156 cents a bushel in 1926, had fallen to less than 50 cents, and the volume of unemployment in America had swelled to something between 12 and 15 millions, the economic machine had definitely broken down in America.

The American Prospect

It was this unprecedented breakdown, rather than a mere stagnation of American economic life, which enabled the new President to obtain from Congress dictatorial powers to meet the emergency. Those powers have since been expressed in a remarkable variety of conflicting projects, the execution of the latest of which would, in most instances, neutralise the effect of the one before. Nevertheless, one major line of policy seems to be implicit in most of the powers with which the President has been invested. Mr. Roosevelt, having been elected by a debtors' vote, has set about lightening the debtors' burdens. This task he has embodied in a policy of inflation or—to use the more popular expression of the moment—"reflation." The actual measures which have so far been adopted evidence the determination to raise the internal price level to the 1929 or perhaps 1926 level, in order to permit debtors to meet their obligations and thus to "unfreeze" the frozen assets of the banks, in one of two ways : either by steady currency depreciation—hence the departure from the gold

standard, in spite of U.S. possession of the larger portion of the world's gold resources—or by the financing of government schemes of employment by an inflated note issue.

This dual line of advance indicates an attempt to solve American economic problems within the limits of the United States. American policy at the moment is, in fine, an isolationist policy, and the chances of American co-operation with Europe in the near future, so far as can be judged by U.S. participation in the World Economic Conference, are of the remote kind. Owing to the vast extent of the United States as a market and as a source of raw materials, such a policy is, economically, not impossible. Although it is true, however, that even in 1929 U.S. export trade accounted for barely 10 per cent of its domestic production, it is necessary to remember that certain trades and industries are dependent upon the export market to a much greater degree—50 per cent in the case of cotton, 40 per cent in the case of tobacco, 35 per cent in the case of copper, 18 per cent in the case of wheat, and so on. In the circumstances it is unlikely that American industry and agriculture, if and when they revive, will be content with an internal market which, in the existing organisation of American society, can utilise only a fraction of their productive powers. Failing drastic change in the economic relations of American society, a revival of the old imperialism, perhaps within the limitations of the Monroe Doctrine, would seem to follow inevitably from any successful restoration of American economy.

Obviously, an increased export trade with South America might be a potent factor in this work of restoration, and would further help to realise a part at any rate of the frozen U.S. investments there—no doubt the greater part will have to be written off. But the difficulties here are of an arduous character at present, and are not being surmounted by the barter negotiations of recent months.

More practicable is the prospect of American development of the Chinese market, through the construction of railways, roads, air services and so on, and the resulting attempt, already illustrated by the loan of \$50,000,000 granted in June 1933 to the Nanking government for the purchase of raw materials, to secure the lion's share, in competition with Britain and Japan, of Chinese foreign trade. Here the Japanese menace to America's Eastern trade in general will doubtless take a form demanding immediate United States action. The U.S. programme of intensive naval construction apart—and this, although primarily designed to give employment, has its bearing on British as well as on Japanese interests in the Pacific—the American desire to curb Japanese aggression, particularly in China, would seem to indicate an early recognition of Soviet Russia.

The central problem, however, of American policy in relation to the rest of the world must necessarily turn on the development of American relations with Britain. This country's drive to regain her lost export trade, stimulated in the first place by departure from the gold standard, has since been carried a step further, at any rate in theory, by the Ottawa Conference and the re-awakening of Canada's sympathies with the mother country, and by the conclusion of bilateral trade pacts with various European countries and with the Argentine. The effect has been to create a sharp antagonism of interests between British industry and the prospectively revived industry of the United States.

The actual economic friction between the two countries is already apparent in the difficulty experienced in reaching an agreed rate of exchange between the pound and the dollar. Although the American apologist for the arbitrary departure of the United States from the gold standard insists that such action was dictated by the purely internal necessity for raising prices, the chief external effect of the

depreciated dollar has so far been to increase the competitive power of the United States at the expense of British export trade. Whether or not the rate of exchange between London and New York is stabilised in the near future, the United States undoubtedly possesses a useful bargaining advantage in the form of British war indebtedness, which Congress, in contrast with the American banking community, shows no desire to cancel.

Apart from the general scheme of inflation, the United States has no recipe for its own salvation. Certainly it has no contribution to make towards world recovery. American thoughts are turned inwards at present with some show of logic, since isolation can scarcely make internal matters worse and holds out a distinct prospect of gain. In the not improbable event, however, of the failure to effect an *adequate* economic revival through inflation, America would be compelled to adopt a policy of co-operation, rather than of competition, with the other great powers. Such co-operation would entail the closest financial ties with this country.

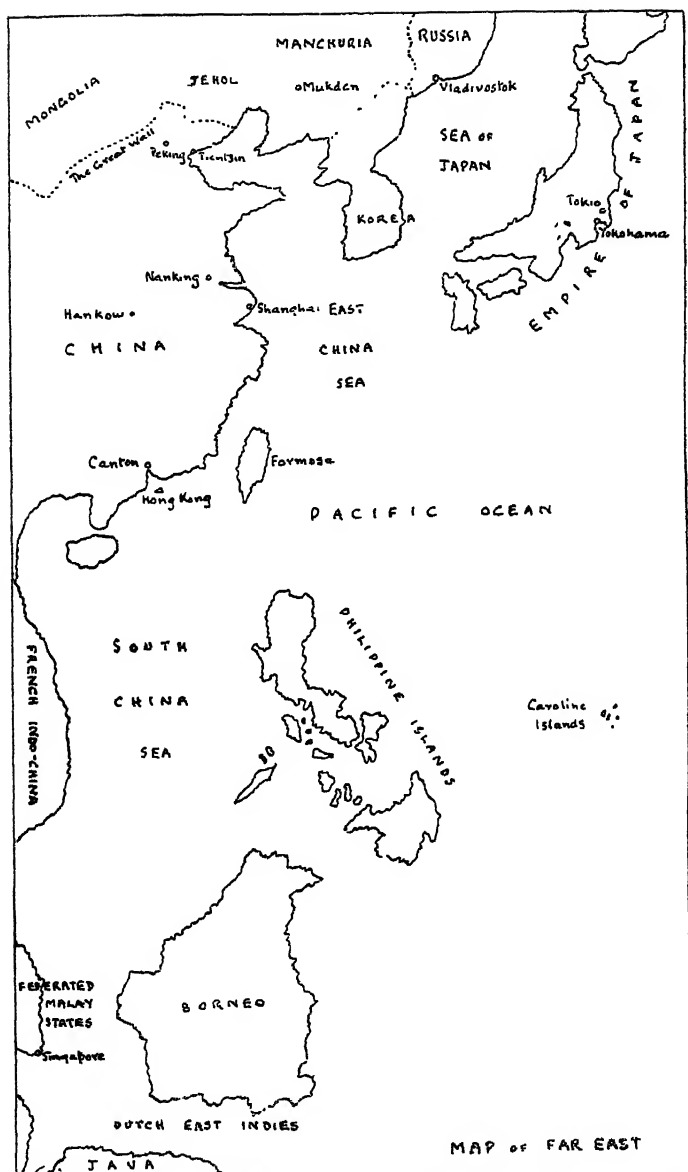
CHAPTER VII

JAPAN

The Emergence of Modern Japan : The Structure of Japanese Industry

THE EMERGENCE of Japan as an industrial power is perhaps the next most important event, after the rapid evolution of the United States, in the economic history of the past half-century. But whereas the growth of the U.S. economic structure followed the traditional course of European industrial capitalism, the structure of the new Japanese economy presents several unique features.

The transformation of Japan in the later part of the nineteenth century had two main causes : first, the expansion of "white" industrial civilisation in its widening search for export markets for manufactured products and the utilisation of finance-capital ; secondly, the internal bankruptcy of feudal agricultural Japan. The first of these factors took shape in the commercial treaties extracted by Britain, Russia, China and the U.S.A., which were a prelude to the acquisition of extra-territorial rights. The second factor, the steady crumbling of the feudal agricultural economy of Japan, was due to the enormous burden of taxes and debts, which deprived the peasantry of the means of existence and caused continual rice riots, and to the rise to power of a new financial community of money-lenders and commercial agents, who had gradually become the possessors of the heavily mortgaged estates of the Samurai, the ancient feudal military caste. This new



moneyed class was the ancestor of the great family banks which now dominate Japanese economic life.

The political expression of these economic changes came with the "restoration" of the Mikado Meiji in 1868, when the younger Samurai—who constituted the Mikado's entourage—seeing no prospect of maintaining their hold on their ancestral estates under prevailing conditions, embarked upon an aggressive policy of Westernisation. Such a policy, needless to say, had the enthusiastic support of the hitherto despised class of merchant bankers. The feudal barriers, in the form of tolls, etc., to the free exchange of goods were broken down, and intensive imitation of the Victorian economy was ruthlessly enforced. The Prince of Wales, it may be noted, had paid a visit to Japan in 1869, and in the following year the first foreign loan (£1,000,000 at 9 per cent) had been contracted with London banks. A couple of years later the first railway, gas works, Christian Church and brewery had already been constructed in Yokohama, and the *coiffure* of their Imperial Majesties had changed from the traditional Japanese to a more modern style. Gladstonian Liberalism became the prevailing fashion, a paper Constitution, calling for a Public Assembly and compulsory education, was introduced, and a second loan at 7 per cent was contracted in London. The preliminary venture in foreign expansion was occasioned by an "incident" in Formosa, where some Japanese fishermen had been attacked by aborigines.

By 1878, however, the sweeping changes in every sphere of economic life, and the losses thus caused to traditional vested interests, provoked an internal rebellion. During the 'eighties the *tempo* of industrialisation slowed down considerably, and democratic ideals were abandoned in favour of Bismarckian principles of government, which were more closely in accord with Japanese tradition. Prior to 1868, the Mikado had lived in perpetual retirement and received

the nominal fealty of the heads of the feudal clans, who exercised political control ; the country as a whole had been organised on the basis of a strict hierarchy, with elaborate ceremonial and archaic dress to emphasise class gradations ; while the chivalrous code of *bushido* had served as a set of tacit moral principles for the Samurai. The new Mikado, however, had asserted his right to executive political power and, with the aid of his immediate entourage, deliberately pursued his Westernising policy at the expense of the feudal agricultural clans. It is thus important to note that the industrial revolution in Japan was not, as in England or the United States, an un-co-ordinated process effected by individual initiative, but was expressly brought about from above at the instigation of the Emperor and had behind it the force of his peculiar prestige. As a consequence, although the state has always been intimately concerned in the organisation of Japanese industry, actual ownership has always been in the hands of the feudal nobility and their merchant bankers ; no Japanese industrial middle class emerged—as an industrial middle class has emerged everywhere else—to wrest power from the agricultural landowners. It was largely as a result of this peculiar economic structure that Japan could not acclimatise herself to Liberalism, and discovered, indeed, her ideal in Bismarck's policy of centralising state organisation in the person of the Emperor. Another close parallel with German conditions may be found in the " Junker " domination of the Japanese Court—that is, in the Samurai military influence upon the Mikado. In brief, the industrialisation of Japan may be regarded as the first historical example of the attempt to found a rationalised and centralised state such as Soviet Russia hopes to achieve, though with the crucial difference, of course, that the profits of the industrial machine in Japan passed to the feudal owners of industry and not to the community.

This rationalised structure of Japanese industry was capable of rapid growth without recourse to extensive foreign capital borrowing, since state credit supplied the initial capital to private concerns, which were assured of freedom from both competition and taxation, and were even assisted, where necessary, by state subsidies and tariff protection. These initial loans were repaid out of the profits of the enterprise, which remained the property of the original promoters. The predominant influence of the state in Japanese industrial enterprise naturally leads to considerable corruption in the higher grades of Japanese society, and government policy is almost entirely at the mercy of the conflicting jealousies of the giant commercial trusts which have grown up during the past fifty years, of which the most notable are the Mitsui family concern, which is identified with the Seiyukai party, and the Mitsubishi interests, which are associated with the party known since 1927 as the Minseito party.

These giant trusts are unique in the world in respect of the range and centralisation of their activities. Founded in most cases on the basis of a small family bank or exchange house, they have extended their power into every department of financial and industrial organisation, and at the present time are outstanding examples of the combined horizontal and vertical trust. For example, the Mitsui family concern (which can be traced back to the sixteenth century) embraces banking, insurance, food and manufactured commodities, mining and heavy industry and all forms of building and armaments. It has close contact with the English firm of Vickers, which is associated with Mitsui in the Nippon Steel works and which has earned large profits from Japanese naval armament construction. (Naval contracts have been the occasion of many of the most notorious Japanese political scandals.) In recent years Mitsui contact with German interests has developed the

the nominal fealty of the heads of the feudal clans, who exercised political control ; the country as a whole had been organised on the basis of a strict hierarchy, with elaborate ceremonial and archaic dress to emphasise class gradations ; while the chivalrous code of *bushido* had served as a set of tacit moral principles for the Samurai. The new Mikado, however, had asserted his right to executive political power and, with the aid of his immediate entourage, deliberately pursued his Westernising policy at the expense of the feudal agricultural clans. It is thus important to note that the industrial revolution in Japan was not, as in England or the United States, an un-co-ordinated process effected by individual initiative, but was expressly brought about from above at the instigation of the Emperor and had behind it the force of his peculiar prestige. As a consequence, although the state has always been intimately concerned in the organisation of Japanese industry, actual ownership has always been in the hands of the feudal nobility and their merchant bankers ; no Japanese industrial middle class emerged—as an industrial middle class has emerged everywhere else—to wrest power from the agricultural landowners. It was largely as a result of this peculiar economic structure that Japan could not acclimatise herself to Liberalism, and discovered, indeed, her ideal in Bismarck's policy of centralising state organisation in the person of the Emperor. Another close parallel with German conditions may be found in the " Junker " domination of the Japanese Court—that is, in the Samurai military influence upon the Mikado. In brief, the industrialisation of Japan may be regarded as the first historical example of the attempt to found a rationalised and centralised state such as Soviet Russia hopes to achieve, though with the crucial difference, of course, that the profits of the industrial machine in Japan passed to the feudal owners of industry and not to the community.

J A P A N

This rationalised structure of Japanese industry was capable of rapid growth without recourse to extensive foreign capital borrowing, since state credit supplied the initial capital to private concerns, which were assured of freedom from both competition and taxation, and were even assisted, where necessary, by state subsidies and tariff protection. These initial loans were repaid out of the profits of the enterprise, which remained the property of the original promoters. The predominant influence of the state in Japanese industrial enterprise naturally leads to considerable corruption in the higher grades of Japanese society, and government policy is almost entirely at the mercy of the conflicting jealousies of the giant commercial trusts which have grown up during the past fifty years, of which the most notable are the Mitsui family concern, which is identified with the Seiyukai party, and the Mitsubishi interests, which are associated with the party known since 1927 as the Minseito party.

These giant trusts are unique in the world in respect of the range and centralisation of their activities. Founded in most cases on the basis of a small family bank or exchange house, they have extended their power into every department of financial and industrial organisation, and at the present time are outstanding examples of the combined horizontal and vertical trust. For example, the Mitsui family concern (which can be traced back to the sixteenth century) embraces banking, insurance, food and manufactured commodities, mining and heavy industry and all forms of building and armaments. It has close contacts with the English firm of Vickers, which is associated with Mitsui in the Nippon Steel works and which has earned large profits from Japanese naval armament construction. (Naval contracts have been the occasion of many of the most notorious Japanese political scandals.) In recent years Mitsui contact with German interests has developed the

synthetic nitrate industry, and the German Bemberg company was largely instrumental in creating the Mitsui Rayon (artificial silk) company. The Mitsubishi group, belonging to the Iwasaki family, is of more recent origin, having been founded in 1870. It was originally concerned with shipbuilding and engineering, but has since extended its interests to all forms of iron and steel work, with control of mines, etc., and all aspects of foreign trade, marine insurance and warehousing ; more recently it has become prominent in electrical engineering and aircraft construction. With the Mitsui interests at the present day are associated the Choshu clan, of which the Army was a more or less traditional preserve, while the Mitsubishi group enjoy the association of the Satsuma clan, which was the mainstay of the Navy. Two further influential financial concerns that need to be mentioned are the Sumitomo and the Yasuda banking firms.

While industry was being organised on these highly rationalised lines, agriculture—and also sericulture, which was encouraged by the Meiji régime to remove the farmers' dependence upon the rice crop—remained organised on a small-tenant and peasant-proprietor basis : land is leased or bought on mortgage from the big feudal landowners, and is cultivated in the most intensive fashion. This farming class labours under many difficulties and has no lack of grievances, especially against big business, but is politically inarticulate, owing to the obstacles in the way of organisation and the superior charms of the huge sums of money at the disposal of the trusts for controlling public opinion.

In spite of the existence of political parties in Japan, in no sense can the Constitution be regarded as the repository of democracy on a Western or any other model. The Constitution, as finally promulgated in 1889, established the Mikado as a " constitutional " monarch, but effective political control remained in the hands of his Privy Council,

whom he alone nominates, and the so-called Elder Statesmen, who have no legal status whatever. The House of Peers, consisting chiefly of hereditary nobles and large taxpayers, is a further safeguard of the interests of the military and commercial aristocracy. The House of Representatives was not elected on a universal adult male suffrage until 1925, and, although it has nominal control of financial legislation and the leaders of the majority party compose the civil members of the Cabinet, it should be borne in mind that the War Office and Admiralty heads, who must be on the active list of the Services, are accordingly responsible to the Emperor alone.

Thus three main groups of interest battle for the direction of policy, although often enough, it is true, identity of interest is more in evidence than conflict. There is the military and naval caste, intent upon developing the glories of Japan by force of arms and exercising an enormous influence over the popular mind by its identification with the Mikado and through the traditional glamour of the Samurai and their code of *bushido*—which is also the basis of Japanese education. There is the Seiyukai party, dominated by the Mitsui concern, which is primarily interested in internal trade, which seeks to safeguard the interests of the big landed aristocracy, and which stands for a policy of inflation and government subsidies to industry—for example, through armament expenditure—to keep down urban unemployment. Finally, there is the Minseito party, dominated by the Mitsubishi group, which, since it is deeply involved in foreign trade, stands for economic rather than military expansion, internationalism and “sound” finance—that is, rigid economy and the maintenance of the gold standard. All three groups are composed of the ancient Japanese feudal families, and all three naturally have a common interest in maintaining the present régime of the Mikado against the growing but as yet politically

ineffective masses of the new urban proletariat and the discontented and heavily indebted peasant-proprietor.

The transformation of Japan into a great industrial power was by no means an easy task. In the first place, although coal is available in reasonably large quantities, iron ore has to be extensively imported, home sources providing only 13 per cent or so of Japanese needs. Essential raw materials such as cotton and wool are likewise obtainable only from abroad. An additional and immensely important problem was created by the rapid increase of the urban population : the soil was already more intensively cultivated than in any other country in the world and barely sufficed for the population, and vast rice imports became necessary. As a consequence, Japanese economy up to 1914 was regularly characterised by an adverse balance of trade, the only large exports available to counterbalance the heavy imports and foreign interest payments being silk and textiles. The financial position had been eased by the large indemnity extracted from China in 1896, a considerable portion of which was retained in London as a cover for Japanese foreign trading obligations ; but the burdens in the shape of loans for armaments for the war with Russia in 1904 had not been counterbalanced by the benefits derived from the war. French persuasions upon Britain and American alarm at Japanese expansion had together prevented Japan from obtaining much more than the right to construct the South Manchurian Railway, the capital for which was in part supplied by British and U.S. (Morgan) interests, though the Anglo-Japanese alliance of 1902, which was largely instrumental in preparing Japan for the struggle with Russia, was revised in 1905 to permit Japan to annex Korea, which was formally incorporated into the Japanese Empire in 1910.

Before and After the Washington Treaty

The period up to 1914 was one of slow recovery from the strain of the war with Russia, and of steady consolidation of the Japanese economic structure by the furtherance of public utility schemes, particularly electrical power, which enabled Japan to take full advantage of the war pre-occupations of the world after 1914. The withdrawal from Eastern markets of Britain and Germany, and the enormous profits from munition contracts (chiefly for Russia) and shipbuilding, created a prosperity boom hitherto unknown in Japan ; and the boom was further extended by the greatly increased U.S. demand for silk, due to the sudden vogue of silk shirts and stockings among the war-enriched American population. The general war atmosphere and the sudden influx of wealth presented an excellent opportunity for the military caste, in alliance with the industrialists, to develop plans for a comprehensive extension of Japanese hegemony throughout the East. The Privy Council urged that the time was ripe for an attempt to make Japan a self-sufficing economic unit, the means to this end being political control over the mineral deposits of Manchuria and even over the whole of northern China, which would provide not only an invaluable closed market for Japanese exports but also a vast reservoir of cheap labour.

The opportunity seemed peculiarly favourable in view of the political chaos reigning in China consequent upon the collapse of the Chinese Revolution and the split between North and South. In January 1915, therefore, after the elimination of German interests in the Far East by the seizure of Kiaochow and the German Pacific islands, a schedule of Twenty-one Demands was suddenly presented to the unstable government of the North in Peking. Although as a result of U.S. objections the more extreme

demands were temporarily abandoned, the Japanese government was able to obtain adequate control of the Peking government for its immediate ends, and to compel the latter to accept a long series of loans, usually known as the "Nishihara loans," for a remarkable variety of purposes. These loans, in the flotation of which the Mitsui interests played a very prominent part, soon fell into default, owing to their uneconomic character and the refusal of the South to recognise them. With the outbreak of the Bolshevik Revolution in 1917, however, Japanese policy received a further stimulus. The military caste were soon to the fore in active intervention and, having occupied Vladivostok, embarked upon a Siberian adventure which entailed enormous losses in both men and money and dragged on to an ignominious collapse in 1922.

Economically the War revolutionised Japan's position. In 1913 she had been a debtor to the extent of 1,223,000,000 yen. By 1919 she had become a creditor to the extent of 1,400,000,000 yen. Her fortuitous prosperity had brought in its train a zest for luxury and ostentation and the outbreak of her first serious industrial disturbance. The reckless speculation in shares and commodities had caused the price of food to fluctuate violently with a general upward tendency; wages, as usual, lagged behind. By 1918 strikes and food riots had become a regular feature of Japanese life. The boom was continued, however, until March 1920, largely as a consequence of the Siberian adventure; but thereafter the economic situation steadily deteriorated. The jolt to the industrial machine caused by the cessation of war prosperity, the disastrous effect of the prolonged intervention in Russia upon the budget (the military leaders insisted that *bushido* prevented them from withdrawing), the collapse of the policy in China and the almost total loss of the Nishihara loans, the growing intensity of strikes and labour agitation—all these factors were combining to reduce

Japan to her pre-war economic position. In the autumn of 1921 the murder of the head of the Yasuda Bank, reputed to be the richest man in Japan, and of the Seiyukai Premier reflected the trend of popular feeling.

At this stage the United States determined to utilise the opportunity presented by Japan's economic difficulties to place a limit to Japanese expansion on the Asiatic mainland and as far as possible to nullify the progress she had already made in northern China and Manchuria. Simultaneously Great Britain was confronted with the difficult choice between renewing the Anglo-Japanese alliance and maintaining the friendship of the United States. With the tacit agreement of this country, the United States convened the Washington Conference, ostensibly to discuss naval disarmament but actually to arraign the conduct of Japan. After considerable discussion the ratio of 5 : 5 : 3 as between Britain, the United States and Japan was fixed for capital ships, the principle of the "open door" in China was reaffirmed, and the powers pledged themselves to make no territorial aggression on China and to recognise none. The Washington agreement was undoubtedly a setback for Japan. But she had nevertheless obtained the valuable ruling that no further fortification of foreign naval bases in Chinese waters should be permitted. Moreover, the ratio of naval building, in view of the strategic problems involved, was not so unfavourable to Japan as may have appeared, while she still enjoyed unlimited powers of building in regard to auxiliary vessels. And the pledge to respect the territorial integrity of China, as events proved in 1931, was one that could conveniently be disowned at the appropriate moment.

In a sense, indeed, the Washington agreement was the most favourable feature of Japanese history at this period. Internal political scandals, revealing corruption and maladministration in the highest quarters, combined with ever

growing unemployment and economic depression to give a definitely revolutionary turn to social unrest, thereby filling the Privy Council with alarm. The spread of "dangerous thought"—that is, of socialist and Bolshevik ideas—was met by proposals for the recognition of trade unions, extending the franchise and shortening the policeman's sword. The complete *débâcle* of intervention in Siberia led to violent recriminations in the House of Representatives, whose proceedings degenerated into steady vituperation. The astonishingly corrupt administration of the Seiyukai (particularly the graft associated with opium and morphia activities in the South Manchurian Railway zone, and the embezzlement of Siberian military funds) provoked further political dissensions, notably the formation of a Farmers' Union to protect the peasant-tenants against the landlords. Deterioration was apparent in every quarter, and a serious collapse of the entire Japanese economy seemed not unlikely when, on September 1, 1923, the great earthquake totally destroyed Yokohama and the greater part of Tokio.

Economic Problems and the Manchurian Venture

In spite of the immense havoc caused, the earthquake was not an unmixed misfortune. The Premier himself expressed the view that it would have the good effect of steadying national thought—a process which had been assisted by the immediate police round-up of all well-known "dangerous thinkers" and by the popular massacre of 4,000 Koreans. Grandiose schemes of reconstruction on modern lines with government backing temporarily solved the unemployment problem, though at the expense of a considerable increase in the budget and in foreign loans. (There was a 6 per cent London loan for £25,000,000, and a 6½ per cent New York loan for \$150,000,000.) The generous extension of credit facilities, not too scrupulously administered to those who

could pull political strings, enabled many concerns to obliterate a lot of the bad debts they had been carrying for a couple of years after the collapse of the war boom, but also paved the way for the serious banking crisis of 1927.

At the general election of 1924 the Seiyukai were decisively defeated and a Mitsubishi Cabinet came into power, with Viscount Kato as Premier and Baron Shidehara as Foreign Minister, both being related by marriage to the Iwasaki family, who own the Mitsubishi concern. In view of the heavy budgetary liabilities, an aggressive military policy was out of the question, and a policy of "frugality and effort" was therefore inaugurated in its place. A Manhood Suffrage Bill marked a big advance towards Western ideas of popular representation, but so alarmed the medieval Privy Council that they gave consent to it only on condition that a Preservation of Peace Bill was passed simultaneously, by which membership of a society aiming at the alteration of the Constitution or the repudiation of private ownership of property constituted an offence punishable with ten years' imprisonment.

Meanwhile the military faction had not only been completely discredited but had also had to endure the reduction of the standing army by four divisions, while the Mitsubishi government, the watchdog of the Navy, embarked upon an intensive building programme of auxiliary vessels—a programme which accorded ill with the policy of "frugality and effort," but gave employment to the Mitsubishi dockyards. The military faction thereupon retaliated by an aggressive propaganda campaign in the schools. The demobilised officers of the four divisions were appointed schoolmasters, and the intense militarist fervour of 1932 must owe not a little to this educational work among the younger generation.

The industrial boom which accompanied earthquake

reconstruction was also assisted by the pronounced anti-British attitude of China, culminating in the total boycott of Hong Kong. Japanese industry and shipping benefited materially, and discreetly fanned the agitation by the issue, through the semi-official news agency, of false reports of British assistance to the North in their war with the South. But this boom was built on a very unsound financial basis, and a financial "earthquake" came in the spring of 1927, when a national banking crisis resulted from the government's attempt to liquidate temporary earthquake advances prior to the removal of the gold embargo. A general run on the banks followed the revelations in a Mitsui newspaper that the government had been using the Post Office Savings Bank fund for advancing credits to its commercial friends, and that the State Bank of Formosa, having become hopelessly involved with Suzuki shipping and sugar interests, had taken advantage of the easy credit policy to discount 80,000,000 yen of very doubtful Suzuki bills with the Bank of Japan. After many bank failures, which necessitated a general moratorium, the entire banking system underwent a comprehensive reorganisation, many of the smaller concerns being eliminated and much of the over-extended credit being liquidated.

A general election in the summer of 1929—the first on the enlarged franchise—returned to office by a large majority a Minseito government, pledged to rigorous restriction of government loans, strict economy in private life, the lifting of the gold embargo and restoration of the yen to gold parity (24.58*d.*)—a generally deflationary policy. The election had been preceded by an intensive campaign of accusation against the Seiyukai of corruption in the administration of Army funds during the Siberian adventure, to which the Seiyukai had retorted by accusing their opponents of having made large fortunes by using confidential information regarding the government's plans

for the reconstruction of the brothel quarter of Tokio destroyed by the earthquake. The new government soon became involved in a bitter internal dispute arising from the London Naval Disarmament Conference, convened by Mr. MacDonald to exploit the pacific atmosphere engendered by the Kellogg Peace Pact and to procure limitation in the auxiliary classes not included in the Washington agreement. The peculiar constitutional position of the heads of the Japanese Services became painfully apparent during the negotiations. The civil delegates, headed by Mr. Wakatsuki, were agreeable to limitation in the interest of their deflationary financial policy, which naturally demanded strict economies in all branches of national expenditure. The Naval Staff, however, who owed direct allegiance to the Mikado, were uncompromisingly hostile to limitation. Mr. MacDonald, anxious to resolve the deadlock in order to obtain some sort of result from the Conference after the breakdown of the Franco-Italian naval *pourparlers*, took the unusual step of communicating over the heads of the delegates with the Premier in Tokio. This step was successful, and the civilian desire for acceptance carried the day. It is noteworthy that the Mitsubishi Cabinet were on this occasion torn by conflicting loyalties to the Navy and to their general economic programme. A compromise was reached with the decision to pay government compensation to the dockyards for the unbuilt vessels. Mr. MacDonald's tactics had been, in fact, completely justified. But they were indirectly to cost the Japanese Premier his life. After a bitter political struggle with the Privy Council and the Services, the London agreement was ratified in October 1930. A fortnight later Premier Hamaguchi was assassinated as a traitor to Japan by a member of a patriotic secret society. This act was typical of the feeling of the Services at this time, for the naval-military caste regarded their setback as a sign that the civil

authorities—that is, big business—would in future claim the exclusive right to dictate Service policy.

In view of the fact that the extended franchise had clearly increased the power of democratic party politics in the sphere of state control, the military clique saw the necessity for adapting themselves to the changed times. The old brake on democracy in the persons of the Elder Statesmen had literally died away, and now came the defeat of the Privy Council. It was plain to the military caste that a popular party following was essential if they were to retain their voice in affairs.

In spite of their victory over the Privy Council, the Minseito government were rapidly being overwhelmed by economic difficulties. The return to the gold standard in January 1930, sound policy though it was in theory, had been complicated by the widespread fall in world prices, and particularly—as a result of the collapse of American prosperity—by the falling-off in the demand for Japanese silk. The value of the total exports of raw silk declined from 416,647,000 yen in 1930 to 218,269,000 yen in 1931—a fall of nearly 50 per cent in twelve months, while the value of the total export of Japanese merchandise was halved between 1929 and 1931. The fall in prices, aggravated by the deflationary policy of the government, hit the tenant-farming community with particular severity. The idleness of shipping, and the suspension of naval building following upon the London agreement, combined to add to the steadily growing number of unemployed.

By the spring of 1931 the military party decided that the time was ripe to exploit popular discontent with the government for their own ends. A Fascist party was actively encouraged, drawing its initial popular support from the larger tenant-farmers, up in arms against their indebtedness and willing to place the blame upon the great financial trusts, and from the Social-Democrats, a mildly liberal

party appealing to the unemployed white-collar and university class. The party programme placed great emphasis upon the national tradition and patriotic glories of the Mikado, thus making a strong appeal to the Army officers and the younger generation. "Let us remember Japan and be Japanese," was their answer to the internationally minded Minseito Cabinet.

The economic difficulties of the Cabinet were further intensified during 1931 by the rise of tariffs, particularly in India, and reached their climax when Great Britain was forced to abandon the gold standard in September, thus placing Lancashire in a more favourable position to compete with Japan in export markets. Serious as these economic difficulties were, however, political difficulties were even more threatening. For the General Staff had already taken action on their own authority and begun the occupation of Manchuria outside the railway zone. This action was the climax of a prolonged campaign on the part of the military party and its Fascist allies for a "positive policy" in China, particularly Manchuria. While such a policy had always been an article of faith with the imperialist parties, its sudden re-emergence into the sphere of practical politics in the midst of a serious internal crisis requires some explanation.

The necessity for distracting the widespread agrarian discontent by a war campaign, which would permit the indebted farmers to regard their economic distress as their contribution to the national effort, no doubt played its part in the decision to take military action. But it may be remarked that throughout her history Japan has rarely taken decisive action in foreign affairs without the support of another great power. In the early phase of Japanese development Great Britain was always behind Japan with expert military, naval and financial aid; but with the lapse of the Anglo-Japanese alliance in 1922, and the

hostility of the United States after the Washington Treaty and the U.S. ban on Japanese immigration in 1924, Japan was left without an ally. The French *pourparlers* of 1924 have already been noted in another connection. The re-emergence of France as the supreme world power dates from 1928, and during that phase of supremacy the Right government of M. Poincaré, with its careful regard for the interests of armament concerns and the big *rentier*, undoubtedly turned its attention once more to the East, and particularly to Manchuria, where in pre-war days the Banque Franco-Asiatique had played a big part in financing Tsarist development schemes such as the construction of the Chinese Eastern Railway. On the Japanese side, particular significance lies in the part played in government policy during 1930 by Mr. Toyotaro Yuki, head of the Yasuda Bank, who, as the newly appointed head of the Industrial Bank of Japan (the affiliate of the Bank of Japan), through which the state "encouraged" industry by subsidies, credits, etc., was largely responsible for the rationalisation and re-equipment of Japanese industry and the promotion of such new industries as rayon manufacture. Mr. Toyotaro Yuki, in his other capacity of vice-president of the Banque Franco-Japonaise—on whose board the Schneider interests are prominently represented—was doubtless able to emphasise the merits of Manchuria as a field for French investment. The predominant position of France in world affairs during 1931, particularly in the financial field, must further have afforded considerable encouragement to those Japanese interests who longed to make Japan a self-supporting Empire.

The purely factitious nature of the incident selected by the Japanese as the *casus belli*—the shooting by the Chinese of Captain Nakamura on a charge of carrying heroin and organising a Mongolian revolt—is evidenced by the fact that Baron Shidehara, the Foreign Minister, did his best to

negotiate a settlement with the Chinese authorities and even attempted to conceal Captain Nakamura's military status. The incident occurred in June. By the beginning of September, Baron Shidehara's negotiations seemed to be on the point of reaching success, for the Chinese authorities had arrested the officer responsible for the shooting. On September 17 a statement to this effect was issued to the Japanese Press. On the very next day, General Honjo, acting on orders received on September 15 from the General Staff in Tokio, began the military occupation of Manchuria. The official pretext for occupation was the mysterious destruction of the South Manchurian Railway track north of Mukden at 10.30 p.m. on the night of September 18.

This explosion most conveniently took place at the height of the European financial crisis. The energies of the newly formed National Government in Britain were so absorbed in slipping off the gold standard that Far Eastern developments received little official attention. On September 21, the day on which the gold standard here was officially suspended, China appealed to the Council of the League of Nations against the unprovoked aggression by Japanese troops, while the Japanese Cabinet sat for seven hours, during which the civilian members endeavoured to prevent the despatch of reinforcements to Manchuria. Half an hour after the Cabinet rose, the Minister for War announced that the Commander-in-Chief in Korea had despatched reinforcements on his own discretion. Meanwhile an intensive Japanese demand for dollars (between September 21 and October 14 there was a most abnormal demand to the extent of £38,000,000) followed upon the suspension of the gold standard in Britain. This attack upon the stability of the yen greatly added to the difficulties of the Minseito Cabinet, and was largely attributed to speculative operations by the Mitsui interests in the hope that the gold

standard would be suspended in Japan, in which case the dollars could be re-exchanged at a large profit.

For the next two months the Cabinet fought a losing battle with economic problems and the General Staff. In face of repeated promises of withdrawal to both the Cabinet and the League Council, the occupation of Manchuria continued systematically. Operations in the north resulted in the capture of the key city of Tsitsihar on November 18 (November 16 had been the date fixed by the League Council for the complete evacuation of Manchuria). On November 27 an offensive was launched in the south against Chinchow, the last stronghold of the Chinese authorities. But the combined international pressure of Britain and America now enabled Baron Shidehara to obtain the Mikado's authority to halt the advance on the next day, while he entered into negotiations with the Chinese Marshal Chang Hsueh-liang. Considerable pressure from Chinese sources was exerted upon Chang Hsueh-liang to adopt a strong attitude towards the Japanese proposals, and the consequent difficulty of reaching an agreement, together with the decision of the League Council, on December 10, to appoint the Lytton Commission to make a personal investigation brought about the downfall of the Minseito government on December 11.

A Seiyukai government was formed under the leadership of Ki Inukai, the successor of Baron Tanaka (the protagonist of the Siberian adventure), with General Araki, leader of the Fascist militarists, as Minister for War. The gold standard was immediately suspended, permitting the Mitsui concern to reap the profits it had anticipated from its dollar speculations, and a large-scale offensive was launched against Manchurian "bandits," resulting in the capture of Chinchow and the expulsion of Chinese authority (except for the Chinese governors in the north) from Manchuria on January 2. The occupation of Harbin in February, and

the elimination of the few remaining Chinese generals, permitted the creation, on March 1, of the "independent" state of Manchukuo with Japanese advisers in every department.

The complete success of the military operations in Manchuria—a success scarcely tempered by the half-hearted remonstrance of the League—greatly strengthened the influence of the military party in the Seiyukai Cabinet. During the Manchurian campaign the official Chinese policy of Marshal Chiang Kai-shek had been one of non-resistance, based on the ground that Chinese armies could not hope to engage the Japanese with any chance of success. With the total expulsion of Chinese authority from Manchuria a more militant policy was demanded, resulting in the new year in the retirement of Chiang Kai-shek in favour of Mr. Eugene Chen, who called for determined resistance. An intensive boycott of Japanese goods was at once instituted, with serious effect on Japanese trade. The military party at once decided to utilise the boycott as a pretext for the next phase of their grandiose scheme of bringing the whole of China under Japanese control. Plans for a landing at Shanghai were hastily drawn up, and on January 28 a Japanese offensive began in the native quarter of the town. Faulty tactics and unexpectedly stiff opposition by the Cantonese troops (Chiang Kai-shek's troops did not participate in the defence until its last phase) caused the campaign to be far more expensive in both men and money than had been anticipated. At the height of the offensive an election was held, in order to take advantage of the intensely patriotic atmosphere engendered by the war operations. But the material advantages alike of the Manchurian victory and of the suspension of the gold standard had not yet reached the discontented electorate, which was still weighed down by its burdens of debt and unemployment. When the heavy casualty lists of the Shanghai

venture were published, considerable doubts were felt as to the prospects of a Seiyukai victory. Indeed, a fortnight before polling day (February 20) odds of 3 to 2 were freely laid on a Minseito majority. But the assassination, by a member of a military secret society, of Junnosuke Inouye, the leader of the Minseito party and for years the protagonist of the gold standard policy, caused the Minseito campaign to collapse, and the Seiyukai gained a clear majority.

The Inukai Cabinet, though fortified by its electoral triumph, was confronted with internal and international problems arising out of the progress of the Shanghai venture. In spite of the Premier's threat to withdraw from the League, the Lytton Commission had departed on its investigations. The commercial interests were seriously alarmed at the vast budgetary liabilities resulting from the military policy, which had evoked vague suggestions of a world-wide economic boycott of Japan and had actually necessitated legislation forbidding the export of Japanese capital. The return to power in China of Chiang Kai-shek, however, held out the promise of easy negotiations, although French official policy was being forced by European developments to support the jurisdiction of the League. On March 4, therefore, negotiations for an armistice were opened in Shanghai, and on May 5, the day after the defeat of the Tardieu government in the preliminary French elections, the armistice was signed, while the evacuation of Shanghai was begun on May 11, the day after M. Tardieu's actual resignation. The military party were incensed at the civil-commercial conspiracy to check their imperialist policy, and Premier Inukai, who had hitherto always been regarded as a loyal supporter of the military caste, and Baron Takuma Dan, who—as head of the great Mitsui commercial empire—was known as the J. P. Morgan of Japan, both fell victims to young patriotic assassins using

official Navy revolvers. The murder of the Premier no doubt symbolised the refusal of the Services to tolerate civil interference, while the murder of Baron Dan, his alleged commercial opposition to the military caste apart, may be attributable to the widespread reports of the huge profits his firm had netted from the exchange speculations. Sacrifice of private interests to the common weal, and an ideal of poverty, it may be remarked, are the two basic tenets of *bushido*.

The cessation of hostilities, ascribed by the opposition Press to the inability of certain Franco-American financial groups to give the support which had been promised in return for trade concessions, permitted the government to concentrate upon the commercial development of Manchuria. Here big schemes of strategic railway construction and mining development were vigorously pushed forward, the Banque Franco-Asiatique being prominent on the financial side. A noteworthy development has been the passing of control of the Chosen (Korea) Corporation from the British Harman group to the Banque Franco-Asiatique. The problem of the Chinese Eastern Railway at once became the cause of political tension with the U.S.S.R., but Soviet unwillingness to engage in military activities at a crucial point of economic development left the Japanese entirely free to proceed with their plans through the mechanism of the new state of Manchukuo (nominally ruled by the former Manchu Emperor), which was formally recognised by Japan in September. An important consequence of the new railway scheme will be the elimination of Vladivostok as the chief port for that region, its place being taken by Rashin, in Korea, which is being linked up with Harbin, Mukden, and Seoul, and which will afford a much more rapid port of entry to the Asiatic mainland for Japanese troops.

At home the government was able to reap the benefits o.

the Minseito policy of rationalisation and the encouragement of new industries, and in the later half of 1932 a minor trade boom developed, particularly in exports, to which the heavily depreciated yen proved a valuable stimulus. In July the fiduciary issue of the Bank of Japan was raised from 120,000,000 yen to 1,000,000,000 yen. The rise in prices following this inflationary policy brought some relief to the indebted farming community, though the big landowners with stocks of rice, etc. benefited more directly. Simultaneously interest rates were lowered, and with a further rapid expansion in exports comparatively satisfactory economic conditions prevailed until the new year.

Politically the progress of the League deliberations on the Lytton Report went against Japan, but her obstructionist tactics, aided by the vacillations of Great Britain, delayed any effective decision until February 1933, when the Assembly adopted, without a protesting voice (with the exception, that is, of Japan's) the report of the Council of Nineteen, which had been delegated to deal with the Lytton Report. Japan formally resigned from the League in March. In the meantime the military faction, which still exercised considerable influence in the Seiyukai Cabinet, now under the leadership of Viscount Saito, had embarked upon the invasion of Jehol in January, preparatory to the seizure of Peiping (Peking) and the extension of the Manchu Emperor's sovereignty over the whole of northern China. No serious resistance was experienced, and the Great Wall was crossed in April. The actual occupation of Peiping did not materialise, though Japanese troops now hold all the key positions, so that the old capital can be seized within a few hours.

Meanwhile the growing volume of Japanese exports, particularly of rayon goods, and the steady penetration of markets hitherto the preserve of the British and German

rayon industry, elicited a campaign against "unfair" Japanese competition. Some idea of the effect of the competition may be gauged from the following figures. Exports of artificial silk piece-goods from Japan into Great Britain rose from the preliminary figure of 18,400 yards in 1931 to 256,000 yards in 1932, and for the first five months of 1933 to 247,000 yards ; while British Malaya, which in 1931 imported 216 million yards of cotton piece-goods from Great Britain and 49.8 million from Japan, imported in 1932 39.07 million from Great Britain and 85.78 millions from Japan. In November 1932 the total value of Japanese exports rose by 97 per cent in comparison with the figure for November 1931.

The Future

The future development of the Japanese economy, which must shape the future of her political system, raises issues which are decisive to the whole course of civilisation. As a political organisation, Japan to-day is an anachronism according to Western standards. In spite of the growth of Parliamentary party government, the effective executive control of policy remains with a small hereditary feudal class torn by internecine jealousies. Japanese economic organisation is in many respects well in advance of that of her Western rivals ; the highly centralised economic units of the great trusts enable her to exploit to the utmost the possibilities of modern inter-related commercial developments, considerable economy being effected, for instance, by the family group purchase of raw materials with foreign currency obtained by exports—a practice which obviates the loss on remittance into Japanese currency. Her military, naval and air equipment bears comparison with the most advanced armament in the world. But this superior economic organisation and armament equipment is at the service of aims and ideals which are quite contrary to the

accepted standards of white society. The administration of justice in Japan, for instance, is such that the only crime which is assured of rigorous punishment is the political crime, though even here assassination is not only condoned but even commended if the advantage rests with the feudal faction.

The unique character of Japan's position in the world is further emphasised by the fact that she is the only non-white power capable of economic competition with the whites. The most notable development in Japanese policy during the last few years has been the vigorous enunciation of the so-called Asiatic Monroe Doctrine—Asia for the Asiatics—with Japan as the protector and leader of all Asiatic races. General Araki, the Minister for War, has observed that “the countries of eastern Asia are objects of oppression by white people, and Japan should no longer let this impertinence go unpunished.” Parallel with this political ideal is the long-deferred ambition of the Japanese aristocracy to make Japan a self-sufficing economic unit. Broadly speaking, Japan, even in its high state of industrial development, cannot be said to be self-sufficing to the extent of more than 60 per cent. Even when Manchuria, with its vast resources of iron ore and coal, has been adequately developed, Japan will still be dependent upon foreign sources for petroleum, which is vital for modern warfare, wool and cotton. This is to leave out of account the necessity of ensuring markets for exports to permit adequate employment of the steadily growing population. Pushed to its logical conclusion, therefore, Japanese economic nationalism, of which the Asiatic Monroe Doctrine is the political expression, would imply the seizure of the Dutch East Indies, a valuable source of petroleum and rubber; of Australia, the chief source of wool; and of Malaya, with its tin, rubber and iron ore. As markets, China and India would be essential, and penetration into Iraq and East

Africa has, indeed, already begun. Prior to 1930, the United States was Japan's chief customer and also her chief source of raw cotton, but political hostility arising from economic competition, together with the U.S. financial *débâcle*, has tended to diminish Japan's reliance upon this market, and a scheme for cotton-growing in Manchuria, it may be remarked, is now under consideration.

Naturally any attempt to apply in practice even a small part of this policy must provoke violent international reactions. The countries concerned would immediately place every obstacle in the way of Japanese penetration, first by tariff barriers as in India, and by boycott as in China. Nevertheless, economic pressure within Japan must compel her leaders, if they are to retain their political status, to utilise force to open up new spheres of economic influence. The problems of military and naval action in the Pacific present particular difficulty to this country, the well-nigh indefensible key position of Hong Kong being particularly vulnerable. The Chinese army as at present constituted presents no serious obstacle to Japanese progress. The Dutch East Indies are relatively undefended, and Japan has already attempted to obtain, by private purchase, aerodrome sites in some of the islands. Further, world depression has caused considerable unrest among the native populations of all these countries, and Japan is very skilfully exploiting the opportunity of stirring up hatred of the white nations. An intensive campaign against Britain as the disturber of world peace (through her anti-Japanese tariff legislation) has reigned throughout Japan during the last year ; Indian Nationalists find a ready asylum in Japan ; while the significant abstention of Siam from the adoption by the Assembly of the League of the findings of the Lytton Report reveals plainly enough the extent of Japanese influence in her attempted organisation of the Asiatic world.

The most important opposition will no doubt come from the United States, which must rely upon the markets of the Far East, particularly China, to absorb a considerable portion of her exports. The existence of the U.S. colonies in the Philippines and Hawaii, with their admirable naval bases, must be a constant source of friction between the two nations, and the extensive naval manoeuvres of both Japan and the United States, the concentration of the U.S. fleet in the Pacific, and the vast building programmes planned by both countries suggest that a clash will be avoided only with great forbearance on both sides.

A further factor which must influence Japanese policy is the growth of the population and the inability of Japan itself to increase its agricultural output. The main difficulties in the way of Japanese emigration have been created by the U.S. ban of 1924, the unsuitability of the Manchurian climate, and the inability of Japanese labour to compete with Chinese. The best available land is clearly the empty northern areas of Australia, which have also the attraction of easily worked and very rich iron ore deposits. Any falling-off of Japanese economic activity will increase the pressure of the population problem on government policy. Even assuming, moreover, that the increase of population remains at its present level, it has been estimated that the government must find new jobs at the rate of 500,000 annually for the next 15 years if it is fully to absorb the available labour power.

The chief weaknesses of the Japanese economy are—labour unrest and discontent apart—the lack of long-term capital and the dangerously unbalanced budgetary position, due chiefly to the special burdens of the Manchurian and Shanghai campaigns, agricultural relief and “military and naval improvements.” But to counterbalance the lack of budgetary equilibrium, it should be noted that the tax burden per head of population is the lowest in the world of

the big powers (being, in 1930, £1 1s. 5d. per head, compared with £15 5s. 10d. in Great Britain and £4 13s. 4d. in the United States), while in the same year the national debt burden, which is passing entirely into the hands of Japanese nationals, was only £6 17s. 7d. per head, compared with £160 19s. 11d. in Britain and £27 18s. 6d. in the U.S.A. The figures for 1932 show an increase of 10 per cent (560,000,000 yen) over the Japanese national debt in 1930 ; but, even so, only 13 per cent of the Japanese budget is devoted to debt service, the corresponding figure in this country being 40 per cent.

These figures also serve to explain in some degree Japan's ability to indulge in "unfair" competition. The extreme lowness of her *rentier* charges, combined with very low labour costs—due to undeveloped labour organisation—will always enable the Japanese to undercut her chief rivals. Even if labour agitation extracts concessions from the feudal capitalists, Japanese costs of production will remain far below the British and American.

The immediate prospects for Japan are undoubtedly more favourable than elsewhere in the world, provided that the military party are not allowed to extend their activities beyond Japan's capacity to pay for them.

CHAPTER VIII

CHINA

The Partition of China and the Rise of Kuomintang

CHINA, a country a good deal larger than Europe with about one-fifth of the world's population, enjoys only 2 per cent of the foreign trade of the world. This anomalous position is largely due to two factors : first, the intensity of the competitive jealousy of the great industrial powers ; secondly, the effect of internal political weakness in preventing the development of the country's enormous resources in both raw materials and labour. The striking contrast between China and Japan at the present day may be accounted for by the vastness of the old Chinese Empire, and its consequent vulnerability to foreign incursions, in comparison with the compact island community of Japan. The inability of the feudal Chinese government during the last century to organise effective resistance to the demands of the foreign traders is to be explained by the lack of that central executive authority which is so strangely marked in Japan, huge areas of China having been completely independent of the nominal political authority in the capital and having regularly failed to remit taxation.

Up to 1834 the East India Company possessed the monopoly rights of British trade with China, but after that date numerous private firms, notably Jardine, Matheson & Company (founded in 1832), developed Chinese trade, chiefly in opium, cottons and woollens. The unwillingness of China to enter into economic relations with the outer world was broken down by the force of superior armament, and in 1842 Hong Kong was established as the British base of commercial operations for south China, while Shanghai

became the base for the trade of the Yangtse valley. The British thus obtained a commanding lead in the handling of China's foreign trade, but were soon followed by other industrial powers, notably France and the United States, which established rival trading settlements in Shanghai in the 'sixties, after the sack of the Summer Palace at Peking by white troops. At the same time British control over Customs revenue was established to ensure payment of the indemnities which had been imposed. Since Russia, Germany and Japan likewise began to appreciate the relatively undeveloped character of Chinese trade, a series of wars ensued, as the result of which China was forced to recognise the independence of Korea, while Formosa was ceded to Japan in 1895, Kiaochow was ceded to Germany, Weihaiwei to Great Britain and Port Arthur to Russia in 1898, and the United States enunciated the policy of the "open door" for foreign trade in 1899.

The corrupt and incompetent Manchu government in Peking offered wholly ineffectual resistance to these foreign demands, and a cry for political reform arose with the Chinese defeat at the hands of the universally despised Japanese. A "Reform party" enjoyed a brief reign of power, but a *coup d'état* by the Dowager Empress restored the former lucrative sinecures to the professional politicians of the Court. National feeling vented itself, in 1900, in the ill-timed and ill-organised patriotism of the Boxer Rebellion, which resulted in the clamping of yet more powerful bonds upon the free development of Chinese politics and the Chinese economy. An indemnity of £67,500,000 reduced the already diminished resources of the government and discouraged any further manifestation of national feeling.

The vigour and enterprise of the foreign merchants contrasted very favourably with the stagnation of the Chinese Court, and abstracted large numbers of Chinese from the corrupt feudal administration to residence in the

numerous foreign settlements and Treaty ports. Here, in the capacity of compradors (middlemen and managers), a large and wealthy native commercial class was created, whose contact with Western ideas favoured dissatisfaction with the archaic political régime in Peking. The deplorable state of vast areas of the countryside also stimulated emigration, and the demand for Chinese labour—noted for its industry and low wages—for foreign parts led to a large exodus to Malaya, the East Indies, the United States, the West Indies, and South America. Not a few of these emigrants became wealthy and absorbed modern ideas of education and politics. By the turn of the century an influential body of Chinese commercial opinion at home and abroad was resolutely hostile to the forces of government at Peking.

As early as 1885, after China's defeat by the French in the south, Dr. Sun Yat-sen had formulated a plan for revolutionary action, through the Shung Chung Hwei (China Revival Society), against the Manchu régime; and an abortive attempt was made, ten years later, to seize Canton by force of arms. After this failure, Dr. Sun travelled extensively in Europe (narrowly escaping death in the Chinese Legation in London, after being kidnapped in Piccadilly Circus), and drew up comprehensive plans for the political reorganisation of China on Western liberal-democratic lines. His propaganda found ready acceptance among the mercantile Chinese domiciled abroad, and funds were readily placed at his disposal for the creation of a democratic commercial régime in place of the feudal agricultural mandarinat in Peking. In 1905 a great conference was held in Tokio, where the policy of the Tung Ming Hwei (Revolutionary Alliance) was formally adopted. For the next six years intensive propaganda was carried on among the Western-educated Chinese students and mercantile classes, and risings and disturbances were fomented

throughout China. The great rising of October 1911 compelled the Manchu government to capitulate. The Chinese Republic was proclaimed with Dr. Sun as its first President, and the Revolutionary Alliance was re-christened the People's Party (Kuomintang).

Meanwhile the urgent need for finding an outlet for European heavy industry had led to a big development of railway construction in China. But the competition of the European powers for the construction concession had prevented the work from being done on any organised system, and the first ten years of the century saw spasmodic construction by a number of national groups, each country financing its particular line by a loan issue. The biggest share of the work done fell to British capital, notably the British and Chinese Corporation, an associated company of Jardine, Matheson & Co., the financing being undertaken by the Hong Kong and Shanghai Bank, which had been formed in 1862 to consolidate British financial interests in the East. The intensive competition between the powers had already given rise to a kind of gentleman's agreement, by which the Yangtse valley and a portion of southern China (Hong Kong and the trade of Canton) was recognised as a primarily British sphere of influence; south China generally, Yunnan and Indo-China were allotted to France; while northern China was left to Russian development. The last feature of the agreement, however, was by no means in accord with British policy, susceptible as it was to the Russian menace, and thus led to the Anglo-Japanese alliance of 1902, which gave diplomatic recognition to established economic tendencies. The first foreign ship to enter Yokohama in the 'fifties had belonged, it may be noted, to the firm of Jardine, Matheson & Co., and the Hong Kong and Shanghai Bank had played an important part in developing the industrialisation of Japan. With the Russian defeat in 1905, then, north China

was allotted as a sphere of influence to Japan, the Anglo-Japanese alliance was revised to permit the occupation and eventual annexation by Japan of Korea, and the construction of the South Manchurian Railway and intensive commercial development of the adjoining territory proceeded with the help of British—and American—capital. German interests in China had hitherto received little recognition, but the prominent part played by Germany in suppressing the Boxer Rebellion enabled her to occupy Shangtung and to participate in the construction of the Tientsin-Pukow railway in 1908.

Although the foreign powers had not been unwilling to foster revolutionary intrigue in order to weaken the Peking government and render it more amenable to the granting of concessions, they were by no means so anxious to assist in the establishment of an efficient Republican government avowedly aiming at the transference of China—by means of the abrogation of the unequal treaties and the enforcement of customs and tariff autonomy—to Chinese ownership. Further, the vast army of professional politicians and provincial governors of the Manchu régime were not disposed to allow their profitable sinecures to pass without a struggle into the hands of the upstart mercantile middle classes. The inability, therefore, of the Kuomintang, in face of the hostility of foreign interests and official non-cooperation, to create an alternative governmental machine led to the resignation of the Presidency by Dr. Sun in March 1912, and the appointment in his place of Yuan Shih-kai, an experienced official of the Manchu régime. Yuan Shih-kai immediately overthrew the provisional Republican Constitution, dissolved the National Congress, and established himself, in October 1913, as President for life, preparatory to restoring the monarchy for himself. (This he actually succeeded in doing in 1916, three months before his death.) With the aid of the funds placed at his

disposal by the "reorganisation loans" granted by Great Britain and France—these loans, it may be added, were contracted illegally under the existing Constitution—Yuan Shih-kai found no difficulty in suppressing the military revolts staged by the disappointed republicans of the Kuomintang, who eventually fled the country. In 1914 the name of their party was changed back again to the Revolutionary Party of China.

The Intervention of Soviet Russia

The outbreak of war in Europe completely altered the balance of foreign economic power in China. The elimination of German interests in Shangtung paved the way for an aggressive Japanese policy in northern China and Manchuria, formulated in the Twenty-One Demands presented to Yuan Shih-kai early in 1915. The only counterweight which the Peking government could utilise against Japanese penetration consisted of the growing U.S. Far Eastern interests, led by the National City Bank. Under the pressure of the United States, the political demand for Japanese advisers in every Chinese department of state was dropped, but numerous economic privileges were extracted which permitted Japanese financial adventurers to swarm into China and develop the trade in opium and the purchase of copper coinage, both enterprises yielding huge profits.

The sudden death of Yuan Shih-kai reduced the political structure to chaos. The sole pretence of political government was now maintained by the district military officials, who plundered the countryside for their own advantage. The lack of any unified international policy towards China, owing to the rivalry of Japan and the United States and the war pre-occupations of Great Britain, aggravated the internal chaos. In course of time, however, a number of

“militarist” governors emerged with control over large areas and with the evident favour of different foreign powers. In the north a pro-Japanese clique nominally committed the country to the acceptance of the vast Nishihara loans, a large proportion of which went into their own pockets. In the Yangtse valley Marshal Wu Pei-fu maintained a species of order with the assistance of British funds. In the south Dr. Sun Yat-sen rallied his Kuomintang followers and established—with some American assistance—a precarious régime in Canton.

As a means of checking Japan’s expansion in the north, Great Britain, which also desired to utilise Chinese labour in France, had persuaded the Peking government to declare war on Germany. This move, ineffectually denounced by Dr. Sun and bitterly opposed by the Japanese until they were placated by large contracts for munitions for the Chinese forces, permitted China to be represented at the Peace Conference, where it was hoped she might be able to regain, with international support, some of the ground lost to Japan. Japanese diplomacy at Versailles, however, carried the day, and resulted in the retention of Shangtung, though with a vague promise to return it at some future date. China refused to sign the Treaty of Versailles, and an intensive anti-Japanese campaign was begun throughout the north, as the result of which the subservient Anfu clique, which had maintained a dummy government in Peking in the Japanese interests, were compelled to take refuge there in the Japanese Legation.

U.S. interests were also dissatisfied with the inadequacy of the Treaty restrictions placed upon Japanese expansion, and now attempted to re-establish an international body which would administer Chinese finances with impartiality. This project was sponsored by Morgan’s, and Mr. Lamont, a partner in the firm, paid a personal visit to China and Japan early in 1921. The proposed *consortium* was

unanimously accepted by the foreign powers, but boycotted by China, whose internal disintegration rendered loan operations so hazardous, indeed, that the *consortium* never functioned. Meanwhile the Morgan-National City interests, acting through the political machinery of the newly returned Republican party, took advantage of the deterioration in Japan's economic position to convene the Washington Conference, which, as has been indicated, was in some respects a damaging blow to Japanese aspirations in China. Great Britain, which had hitherto held the initiative in international dealings with China, was compelled to assume a secondary rôle, owing to the severe contraction during the War of her share in China's trade. British capital investment still remained the largest in China, though it was rapidly being equalled by the Japanese, but her share of Chinese imports was steadily declining. It fell, in fact, from 16.5 per cent in 1913 to 12 per cent in 1923, while the share of the United States during the same period rose from 6 per cent to 18.4 per cent.

These international manoeuvres gave little satisfaction to the Chinese mercantile community, since they were plainly directed towards reaching some form of agreement for the partition of Chinese trade and commerce, and were scarcely intended to assist in the formation of an effective Chinese government concerned primarily with the welfare of the Chinese. The Kuomintang politicians had zealously pleaded and propagated their cause at Versailles, Geneva and Washington, but with little success. In these circumstances it is not surprising that an offer from the newly established Soviet government to co-operate with the Kuomintang in the creation of a centralised Chinese republican state found ready acceptance in the party. During his years of exile before the War, Dr. Sun had met many of the Russian revolutionaries now prominent in Soviet counsels, and had discussed with them common problems of revolutionary

agitation. In 1918 he had sent a personal telegram of congratulations to Lenin upon the success of the Bolshevik revolution. But it was not until 1921, it would seem, that a favourable opportunity presented itself to both parties. In that year the Soviet authorities, acting through the intermediary of the Third International, despatched Mahlin, Lenin's secretary, to Canton to discuss joint revolutionary activity. In the following year, Adolf Joffe, who had been despatched to the East to settle up the Japanese adventure in Siberia, met Liao Chung-kai, one of Dr. Sun's most intimate associates ; and a plan for Sino-Soviet co-operation was fully discussed on the basis of the joint declaration officially issued, in January 1923, by Dr. Sun and Joffe at Shanghai. In the spring some young Chinese officers, including Chiang Kai-shek, were sent to Moscow for military training, and in the following October, Michael Borodin, an organiser of wide revolutionary experience, arrived in Canton as political adviser to Dr. Sun. His first step was to urge the complete overhaul of the Kuomintang party machine. A new provisional executive committee was appointed, and the first National Congress of the party was held in Canton in January 1924.

The Soviet government had meanwhile been consolidating its international status. In June 1923, Leo Karakhan had been appointed Soviet plenipotentiary to China and Japan, and in the following year, after the Sino-Soviet Treaty of May, he was designated Ambassador in Peking. This appointment simplified the task of revolutionary propaganda in China, and the creation of an independent Chinese Communist party owing allegiance to the Third International in Moscow now developed rapidly among railway and industrial workers. Simultaneously, military assistance, in the form of advisers and munitions, was given to the so-called Christian general, Feng Yu-hsiang, who organised in the north a "People's Army" for the

elimination of Chang Tso-lin—a bandit chief who, having assisted the Japanese in the Russian war of 1904, was now supreme in Manchuria.

The National Congress of January had drawn up a complete party programme. In the spring the Whangpoa Military School had been established for the military and political training of Chinese officers under the direction of Chiang Kai-shek, and a loan of 3,000,000 roubles and a foundation gift of 3,000 rifles from Soviet Russia had been formally acknowledged. This vigorous growth of a real revolutionary party, backed by its own military force, soon aroused the alarm of both foreign traders and local Chinese compradors. A counter-organisation, the Merchants' Volunteer Corps, was developed under the leadership of the compradors of the Hong Kong and Shanghai Bank, while the more orthodox supporters of the Kuomintang showed serious apprehension at the progress of Communist propaganda. By October the rival armies were on the point of precipitating civil war in Canton. The intervention of the British Consul, with the threat to employ British naval forces, in the event of an outbreak of fighting, against the party troops, brought matters to a political crisis. The Volunteer Corps was disarmed, the Kuomintang supervisory committees adopted a more moderate policy, and Dr. Sun, who was now in very low health, left for Japan. There he entered into *pourparlers* with the Japanese government—which was labouring under the disaster of the great earthquake and was willing to adopt a more liberal Chinese policy—for support for his nomination as President of China. In pursuance of this aim he returned to Peking in January 1925, but his health rapidly became worse and he died in the following March.

The death of Sun Yat-sen, who had for so many years been the focal point of all revolutionary agitation in China, might reasonably have caused the temporary collapse of

the Kuomintang. But the persistence of the Russian advisers, and the die-hard hostility of the foreign settlements (the latter culminating in two incidents of shooting on political processions in Shanghai and Shameen), enabled the party to enter upon the most notable phase of its history. The police shootings were exploited with skill by the Russians as propaganda against imperialism, and, when the Hong Kong authorities declared a blockade of Canton as a penalty for the organisation of a strike of Hong Kong workers, Canton retaliated with a complete boycott of Hong Kong and of British shipping which persisted for fifteen months.

Once again the vigorous resurgence of Communist propaganda under the direction of Borodin alarmed the wealthy merchants of the Kuomintang. In August 1925, Liao Chung-kai, who was regarded as largely responsible for the Sino-Soviet alliance, was assassinated in the street by hirelings in the pay of a secret society of the richer members of the Kuomintang. Stern action on the part of Chiang Kai-shek and Wang Ching-wei, now the most important figures in the party, enabled the latter to maintain itself in Canton ; but the dissident right wing left Canton and, in collaboration with a group of Peking professional politicians, who doubtless foresaw the eventual success of the Kuomintang, founded the Western Hills group, which attacked the party's co-operation with the Communists.

In the meantime the People's Army, the Soviet-assisted force led by the "Christian General," had experienced a severe setback at the hands of Chang Tso-lin and Wu Pei-fu, who had been temporarily persuaded to sink their differences. The Army retreated to Mongolia, and General Feng withdrew to pay his revolutionary greetings to the Third International in Moscow. This disappointment in the north led to an intensification of the war organisation of the Kuomintang forces in the south, and local finances

and the military machine were energetically overhauled in the early months of 1926. The Western Hills group, however, had persisted in their opposition to the Communist trend of Kuomintang policy, and their persistence finally told on the Chinese mercantile community in Shanghai. Chang Ching-chiang, a prominent Shanghai merchant, who had been the leading financial backer of the party and who had close business contacts with Chiang Kai-shek (who had further married a member of his household), secretly visited Canton and discussed with Chiang the purging of the Kuomintang of its Communist influence. In February 1926, Borodin left for the north for a change of climate; in March, Chiang ordered the arrest of all the Communist advisers; and in the same month his colleague, Wang Ching-wei, withdrew to France for an operation.

But Chiang Kai-shek, who now realised the strength of his position as master of the military machine, realised also that the time was not ripe for a final breach with Russia, whose material and personal aid might be further exploited for his own ends. Accordingly Borodin and his military adviser, General Galen (later Marshal Blücher, commander-in-chief of the Soviet forces in Siberia), returned to Canton in April. Plans were elaborated for an expedition against Wu Pei-fu, the British-aided militarist of the Yangtse valley. Hostilities began in July, and by October the superior organisation of the Cantonese, together with the defection of Wu's forces, enabled the Kuomintang troops to reach Hankow, to which town the political administration was transferred. Chiang Kai-shek, however, continued to direct his personal energies towards the capture of Nanking and Shanghai, and declined to visit Hankow, which became the rallying-point of those party members—the so-called left wing—who were profoundly suspicious of Chiang's real intentions, not without justice, as later events proved. This left wing, led by Eugene Chen, the Foreign Minister,

desired collaboration with the Communists for genuine political ends—namely, the creation of a democratic Chinese Republic on the Western model—whereas Chiang had continued to enlist the collaboration of the Communists purely to enable him to establish (with the moral support of the Peking politicians) an effective military dictatorship. This was designed in the interests of the industrialists and merchants of Shanghai, who were becoming increasingly alarmed at the growth of labour agitation and trade union organisation among the industrial proletariat of Shanghai and Hankow.

The foreign powers, notably Britain—which was the chief target of Chinese nationalist propaganda—viewed the progress of the Soviet-aided Nationalist troops with considerable anxiety, and the latter's approach to Shanghai necessitated the despatch, in January 1927, of a large defence force from England. Japan, on the other hand, which had materially benefited from the anti-British boycott, maintained at first a watchful and outwardly neutral attitude, as did the United States. Conscious of the fact that the course of events threatened the complete eclipse of British interests in the Far East, not to mention the possibility of dangerous repercussions upon Indian affairs, the British government adopted a moderate and conciliatory policy towards the Hankow government, much to the anger of the British settlements. An agreement was negotiated with the Chinese Foreign Minister for the return of the British concession at Hankow, which was practically indefensible. This diplomatic withdrawal by Britain, though bitterly criticised at the time, actually brought about the collapse of the Hankow régime by splitting the coalition between the left-wing Kuomintang and the Communist section.

Chiang Kai-shek, acting quite independently, though still retaining his Russian military advisers, had meanwhile

continued his campaign. By the end of March he had captured Nanking and Shanghai. The Kuomintang flag was now supreme over the most valued areas of China, but never was the party itself more hopelessly divided. The Hankow group was unanimous in boycotting Chiang Kai-shek, but was seriously split on the question of future policy. Their difficulties were aggravated by the volatile tactics of the Christian General, who now began to play an incalculable hand on his own behalf, and by internal developments in Moscow, where the Stalin majority, having triumphed over the Trotsky opposition, now urged upon the Russian advisers in Hankow the active direction of Chinese policy. Instructions were wirelessly from Moscow to Hankow to the effect that steps should be taken to promote a Soviet state by means of the forcible seizure of land and its re-distribution among the peasantry, and by the establishment of an efficient G.P.U. department. It would further appear that, in the field of foreign policy, it was urged that an intensification of propaganda against British imperialism should be directed to the creation of a Soviet- Sino-Japanese alliance. In spite of protests against the tactical drawbacks of such a policy, the Communist section of the Kuomintang attempted to put it into practice. The results were disastrous. First, the Kuomintang left wing, whose experience of Chinese politics rendered the idea of a Sino-Japanese alliance more absurd than impracticable, was opposed to further anti-British action and was anxious to develop the diplomatic possibilities of the Chen-O'Malley agreement. Secondly, the organised seizure of properties by terrorist gangs alarmed the officers of the Kuomintang forces, who were largely drawn from the agricultural landowning class and who proceeded to take action, on their own initiative, against the land seizures. Finally, the blockade of the foreign powers and Chiang Kai-shek's superior tactical position at the mouth of the

Yangtse soon rendered the economic position in Hankow impossible. With the virtual break-up of the Hankow forces after their inordinately costly defeat of Chang Tso-lin, Communist leadership of the revolution abruptly ceased. The rival ambitions of the different political groups and war lords came to the surface, and a complete political impasse was reached, resulting in the departure in motor-cars of the entire Russian party across the Gobi desert *en route* to Moscow. The more extreme opponents of Chiang Kai-shek's militarist ambitions, notably Eugene Chen and Madame Sun Yat-sen, fled the country, while other left-wing members entered into negotiations with Chiang. The last action of the Russians, prior to their departure, was to organise Communist revolts of groups of Red forces under Ho Lung and Yeh Ting. Although these revolts were suppressed, the groups participating in them were to become the nucleus of Red China. In December a hastily improvised Communist *coup d'état*, designed to establish a Commune in Canton, caused great damage by fire, but was crushed without difficulty and with conspicuous savagery. The complicity of the Soviet Consul in the organisation of this rising led to the official rupture of Chinese diplomatic relations with Soviet Russia in the same month.

The Future of the Chinese Revolution

The retirement of the Russian advisers and the flight of the left-wing leaders left the way clear for Chiang Kai-shek, who immediately undertook a "purification" of the Kuomintang. This consisted of the wholesale butchery, with characteristic Chinese refinements of torture, of all "Communist" elements, and the disbanding of the trade unions of Shanghai—a task in accord with the desires of his Shanghai backers. In December 1927 he prepared the way for his

final assumption of party leadership, and also for *rapprochement* with the great powers, by becoming a Christian, putting aside his third wife and marrying the sister of Madame Sun Yat-sen. The marriage, which was celebrated in the largest hotel in Shanghai, was the occasion of a grand reconciliation with the foreign authorities, and marks the definite end of the anti-imperialist phase of Kuomintang policy. All hostile elements in the party were driven abroad by terrorist methods, and a rigged party conference duly installed Chiang in undisputed authority. The Nanking government was formally established and, after the completion of the military subjection of the north—which was accomplished chiefly by financial means—Chiang became President of China and the Nanking government was granted recognition by the powers.

The sudden collapse of the Chinese revolutionary movement may still provoke some surprise. If, however, the economic interests represented by the Kuomintang are examined, it becomes clear that with the capture of the political machinery of government the party had achieved all that its leading supporters desired. For the Kuomintang in 1924-27 was essentially what it had been in 1911: it was still the party of the well-to-do Chinese mercantile class, though with the passage of time the wealthy landowners and the professional diplomats of the Peking régime had joined its ranks. The Russian orientation of policy towards Communist ideals was thus fundamentally opposed to the interests of the dominant type of party member. The extension of the party to include the impoverished peasantry and the poorly paid industrial workers created a numerical majority which, if the party principle of democratic representation were logically enforced, would heavily outweigh the influence of the merchant community.

Another important factor in explanation of the rout of the revolutionary movement was the insignificance at that

time of native-owned Chinese industry. The merchant classes were largely dependent on their comprador or middleman activities. Hence any uniform embargo on foreign interests would react very unfavourably on the native mercantile community as a whole. On the other hand, a boycott of trade with a single foreign national interest—the British interest, for example—would benefit the compradors of other countries—of Japan, for example; and vice versa. (This leaves out of account the profits to be derived by all sections of native middlemen from scarcity prices.) Thus Canton merchants, who were associated chiefly with British and, to a lesser degree, with U.S. trade, invariably favoured the boycott of Japanese goods, while the Shanghai merchants, who were closely linked with Japanese interests, did not disapprove of a boycott of British goods. But a complete foreign boycott had no attraction whatever for the mercantile community as a whole.

Since 1930 this state of affairs has undergone an important change. The further decline in the British share of Chinese imports, and the intensified growth of Chinese-owned industry, particularly textiles in Shanghai, has tended to stimulate the movement towards a boycott of Japanese goods. British interests have turned more and more towards the financing of Chinese industrial expansion. The value, for instance, of British piece-goods imported into China declined abruptly from £5,000,000 in 1929 to £1,500,000 in 1930, while Chinese imports of British machinery (particularly textile machinery) trebled between 1928 and 1930. Exports of Chinese factory products in 1931 increased 20 per cent over the figure for 1930, the low wage costs being a powerful competitive factor. Thus the original aim of the mercantile backers of the Kuomintang—the creation of a Chinese-owned industry—is well on the way towards being realised, though it clearly necessitates continued co-operation with foreign capital for its complete achievement.

CHINA

The political reflection of these economic changes is visible in the highly amicable relations existing between the powers and the nationalist government at Nanking. The voluminous paper activities of the party intellectuals in the production of vast schemes for the political and economic regeneration of China have secured a sympathetic response in similar circles in Great Britain and the United States. The lavish hospitality shown to distinguished foreign visitors to China, and the regular requests for League of Nations advisers, have helped to create a relatively favourable atmosphere for the Nanking demand for customs control, the abolition of extra-territoriality and tariff autonomy. Great Britain has remitted her share of the Boxer indemnity on the condition that the money is expended on orders for British railway equipment and the education of Chinese in this country. The United States has vied in generosity by the provision of numerous Chinese scholarships in American universities, benefactions through the Rockefeller Institute and various missionary bodies, and finally by the loan of \$50,000,000 advanced by the Reconstruction Finance Corporation for the purchase of U.S. commodities over a period of five years. Comprehensive schemes are solemnly proposed for some sort of League of Nations control of Chinese affairs, to be backed by international loans—with, presumably, an administrative mandate for the Soong family. (T. V. Soong, Chiang's Minister of Finance and the most influential factor in his relations with foreign powers, is also his brother-in-law.)

The optimistic expectations of intellectuals and commission-hunting bankers, however, should not obscure the real character of the self-styled nationalist government of Nanking. Behind the thin façade of the resolutions of the party councils—resolutions which are never put into practice—this government is essentially a militarist dictatorship of a primitive feudal character, basing its authority

on the use of terrorism for the suppression of all opposition. A rigid censorship prevents the expression of political criticism, and even those critics who venture to defy the authorities from the security of the international settlements run the very real risk of kidnapping and assassination. The governmental machine is largely in the hands of men who were bitter opponents of the Kuomintang in its earlier history, and the corruption and nepotism which prevails can compete on favourable terms with the state of affairs in the Manchu Court which the Kuomintang was formed to abolish.

The incompetence of the Nanking administration, except in the matter of maintaining a terrorist régime in the area between Nanking and Shanghai, and the disgust aroused by the distortion of the party's theoretical principles, soon resulted in large areas of the country passing from its control. By the autumn of 1930 hordes of organised bandits, alleged to be Communists, were paralysing trade on the lower Yangtse, while the great floods revealed still further the complete inability of the government to cope with an emergency. In May 1931 Canton formed an independent government, consisting of men with long party experience. The crucial test of the peculiar nationalism of Nanking came with the Japanese attack in Manchuria. Chiang Kai-shek at once proclaimed a policy of "non-resistance," on the ground that no Chinese army could successfully repulse the Japanese, to which view the Cantonese retorted that "even defeat may renew the strength and power of a nation." The ignominious Chinese showing in Manchuria did, indeed, provoke sharp national resentment, and Chiang, doubtless suspecting that his international credit was in danger, invited the Canton group to join his administration. The Cantonese, some of whom had already experienced at first hand Chiang's diplomacy, insisted upon the despatch of the Cantonese 19th Army to garrison

the Shanghai district before entrusting themselves to his hospitality. The 19th Army took up its position at the end of October, and the conference between Nanking and Canton duly assembled.

The differences of view were so widespread that no agreement was possible. Chiang went into retirement in the new year, and the Cantonese, having assumed control, at once called for a national effort against the Japanese, to be expressed by a complete boycott of Japanese goods. The boycott was so well organised and proved so effective that the Japanese authorities, after announcing to the world that they were saving Shanghai from the Red 19th Army, which had been stationed there with the object of looting the settlement, and that they were thus fighting for civilisation against Bolshevism, embarked upon the disastrous Shanghai venture with an intensive air bombardment. Chiang Kai-shek, nominally in retirement, did his best to secure the withdrawal of the 19th Army before the Japanese landing at the end of January. But the Cantonese troops stood their ground, and, thanks to their German military advisers and the tactical errors of the Japanese commanders, who were changed four times in the course of the five weeks' fighting, astonished the world by keeping the Japanese at bay for the greater part of this time. The closing turn of events, however, caused grave apprehensions among the Shanghai merchants, who were still predominantly pro-Japanese (over 40 per cent of the cotton mills in Shanghai are Japanese-owned), and the course of military operations proved to be beyond the abilities of the civilian Cantonese administration. Chiang Kai-shek returned to office and permitted his well-equipped and well-trained troops to participate in the fighting. (The appearance of his forces in the fighting zone provoked intense surprise in the Japanese Press, which attributed it to British anti-Japanese persuasions.) Meanwhile every effort was being made by

all parties to cease hostilities, and protracted armistice negotiations began early in March. Chiang hastened to make good his breach of internationalism by effusive courtesy towards the Japanese, who, not to be outdone, remembered in the later phase of the fighting in north China to drop placards of regret and sympathy with the relatives of those killed by their air bombardment.

Since the Shanghai incident, Chiang Kai-shek has remained in undisputed possession at Nanking. But Jehol and northern China have been lost to the Japanese, the South-Western Political Council has established an effectively independent régime in Canton, and ineffectual military operations against the menace in the interior of roaming bandit hordes, alleged to be organised on Soviet lines, have proved a severe drain on Nanking's exchequer. Meanwhile the rapid growth of Chinese industry is creating a large urban proletariat, whose discontents are energetically fanned by Kuomintang politicians opposed to the now naked militarist dictatorship and by the underground Chinese Communist party.

The position in China to-day has many points of resemblance with the position in Russia in 1906. The government recognised by the powers is an incompetent autocracy dependent in the last resort on foreign loans and subsidies for its existence. An intensive era of industrialisation has been inaugurated largely with the aid of foreign capital. The educated liberal party, extremely small in numbers, attempts to reach with its propaganda an illiterate agricultural population and an industrial proletariat whose political activity has been associated, from its earliest phase, with extreme Communism. Like the Social-Democrats of 1906, the South-Western Political Council has given notice to the world that it will refuse to recognise the loans which T. V. Soong has been attempting to negotiate during his recent world tour. The country is exposed to

constant defeat at the hands of foreign powers, and the government, even if it desired to do so, is powerless to check these defeats ; at the same time this government is regarded as a responsible agent and as a valuable pawn in the grouping of international alliances—for instance, against the imperialist ambitions of Japan. To this latter condition of things must be attributed the recent resumption of Chinese relations with Soviet Russia, which was further encouraged, no doubt, by the desire of the Chinese middleman to handle the steadily growing volume of Soviet exports of textiles and oil.

The establishment of an effective centralised political administration of China must be impossible so long as the key positions of the country's economic life remain in the hands of foreigners. The hopelessly unstable Nanking government must eventually crumble beneath the weight of further loans essential to the upkeep and payment of its military forces. National discontent, at present scarcely articulate, will ultimately be roused to breaking-point. The tiny element of liberalism in the country would seem to be incapable of riding such a storm, lacking as it does any real military backing. Leadership will doubtless come from the at present obscure leaders of the Communist party such as Koh Dan—if they survive the repressions of the next ten years or so ; and the reported steady extension of Soviet organisation among the peasantry of Hunan and Hupeh in what is called Red China would form a significant ally to the insurgent urban proletariat. If the jealousies of the foreign powers prevented any effective intervention, a united Red China, cut off from contact with the outer world—except for the Soviet Union—may, like Red Russia, attempt to work out its own political destinies once it has gained control of its own economic assets.

CHAPTER IX

SOVIET RUSSIA

IT MAY be well at the outset to emphasise the seemingly ironical fact that Soviet Russia has played, all things considered, an essentially passive part in world affairs. This is not to discount the immense stimulus of the Bolshevik revolution to European Socialism or its repercussions on the balance of political forces throughout the rest of the world. But Soviet Russia, because of her revolutionary social philosophy, has been relatively isolated in the world of post-war politics, political isolation having been expressed in a marked degree of economic isolation ; and it is this fact which accounts for her enforced passivity in the sphere of international affairs. In theory Bolshevism has been a fundamental challenge to the capitalist nations ; in practice Bolshevik Russia has not greatly modified the processes of capitalism in Europe or Asia.

Soviet foreign policy has of course been appreciably simplified by the consistency of Communist dictatorship and by the absence of such entanglements as foreign investments and concessions, and is thus characterised by an unusual lack of disguise in regard to matters of economic interest. Nevertheless, it should be borne in mind that Communist principle has frequently entailed the sacrifice of material advantages to "historical necessity," and that the motives which have inspired, for instance, Soviet relations with China or the propaganda of the Communist International in Persia or Afghanistan—to say nothing of Western Europe—are not primarily economic motives.

More than any other country in the world Soviet Russia has been guided in matters of both internal and foreign policy by purely political—that is, intellectual and philosophical—considerations rather than by economic interest. Much of the domestic politics of Bolshevism falls outside the scope of this survey, and it is with the broad economic issues in Soviet foreign policy that we shall be chiefly concerned here.

The Economics of Intervention

Pre-revolutionary Russia, handicapped by a lack of native capital, had embarked upon a process of sporadic industrialisation with foreign aid. The policy of Count Witte in the 'nineties had been to combine high protection with the attraction of foreign capital to Russia, and this policy had fallen in with French aims. France's quest of an ally against Germany resulted in the breakdown of the German-Russian alliance, the conclusion, in 1892, of a Franco-Russian alliance "to maintain peace," and the transference of the financing of the Russian government from Berlin to Paris. French assistance, however, did not stop short at unproductive loans to the Russian government, but, in pursuit of Witte's invitation, also took the form of large capital investment in the nascent heavy industry of Russia, particularly the mining and metallurgical enterprises of the Ukraine and the Donetz Basin. By 1914 more than 30 per cent of the total amount of foreign capital invested in Russia was French. Britain, Belgium and Germany accounted for most of the remainder.

British loans on a large scale to the Tsarist government did not begin until after 1906, when the defeat of Russia by Japan had removed the Russian menace in the Far East and the British government was drawn into increasingly friendly relations with St. Petersburg by the *Entente Cordiale*. By this

time, however, many important British-owned industrial enterprises, notably textile concerns, had been securely established in the country ; and from now onwards Britain shared with France in the financial development of Russian industry. Right up to the outbreak of war both countries were actively engaged in the development of Russian military-industrial power, their services being expressed in, amongst other things, large participation in the ownership of Russian munition factories and the new oil industry of the Caucasus.

Politically the most backward and retrogressive of the great powers, pre-revolutionary Russia was strait-jacketed in the triple principle of Autocracy, Orthodoxy (the Orthodox Church) and Nationality, the last signifying the subjection of the national minorities. Despite the warning of the 1905 revolution, a genuine approach to liberal constitutional practice seemed to be out of the question. The transformation of the highly centralised feudal structure of the Russian Empire into anything resembling a system of representative government clearly required the existence of a broadly educated class capable of assuming Parliamentary responsibilities ; and in place of such a class there was only the mixed body of the intelligentsia, of whom only a fraction were politically minded, and a handful of liberal aristocrats and landowners. The vast mass of illiterate peasantry apart, there remained an industrial proletariat of relatively small dimensions, though vigorously political in temper and pervaded almost from the beginning by Marxian socialism.

In the years before the War, bureaucratic maladministration and the enormous military expenditure necessitated by the pan-Slav aspirations of Russian foreign policy combined to threaten internal economic collapse, which in turn necessitated ever-growing foreign loans. Huge wheat exports were required to meet the foreign loan service, and,

in the resulting periods of virtual famine, the accumulated force of peasant discontent and urban distress became increasingly articulate. Industrial unrest during 1912-14 culminated in mass strikes all over the country—the biggest strike movement in Russia since the period of general strikes in 1905.

The War, which demonstrated soon enough the inefficiency of the machinery of government in Russia, gave the final touch to the process of political and economic breakdown. By the winter of 1916 the general lack of modernisation in Russia had resulted in appalling military losses and complete disorganisation behind the lines, and by the new year the collapse of the Russian armies could no longer be staved off. The Allies were incapable of realising what was happening, and had recourse to diplomatic missionaries like M. Albert Thomas and Mr. Arthur Henderson to fan the dying flame of Russian patriotism. As this died down revolutionary sentiment flared up, blazing into the March revolution. With the removal of autocracy the state was deprived of any form, however incompetent, of experienced leadership, and was left to the oratorical mercies of the provisional government of Kerensky. The intellectuals who comprised this new government could think of nothing more appropriate to the situation than patriotic propaganda and a resumption of the offensive against the German forces, and thus inevitably roused the hungry workers, led by the extreme Bolshevik faction, to decisive action. The final breakdown of communications prepared the way for the Revolution of October and the transference of all power to the Soviets.

Allied intervention, at first of a confused diplomatic nature, followed as a matter of course upon the Bolshevik attempt to conclude a separate truce with Germany. Then followed military intervention, which had two phases. In both, the Allies directed their hostility against the newly

emerged and destructive force called "Bolshevism"; but in the first brief phase, which lasted from July 1918 until the armistice, they were chiefly concerned to neutralise the effect of Russia's military defection and to counter the German attempt to break the blockade by obtaining possession of stores in Russia. In the second phase, dating from the cessation of hostilities against Germany to the conclusion, towards the end of 1920, of the civil war in Russia, Allied armed intervention—which alone gave the civil war its continued impetus—was enormously stimulated by non-political motives. The political victory of the Bolsheviks had been followed by the repudiation of foreign loans to the Tsarist government and of foreign ownership in Russia, and it was this repudiation which clinched the Allied attitude towards Bolshevism. It was in order to obtain recognition of their economic rights in Russia rather than to restore Tsarism that the Allies spent their millions in support of Kolchak, Denikin, Wrangel, Yudenich and the rest. A Tsarist restoration doubtless seemed most satisfactory to those British and French politicians with the greatest detestation of the new régime—particularly after the latter's creation, at the height of intervention, of the Third Communist International (the Comintern) to conduct revolutionary agitation throughout the rest of the world. But almost any Russian government that was prepared to re-establish the claims of foreign bondholders and property-owners would have served the immediate ends of the interventionist countries—or at any rate of France and Britain. When, therefore, it was realised that there was little likelihood of the complete overthrow of the Bolshevik régime, direct hostilities against the "Red menace" were abandoned for the policy of the *cordon sanitaire* (designed in the first place to protect Poland, France's *protégé*, against the Bolshevik revolutionary crusade), and the attempt to detach outlying sections of

Russian territory of economic value—the Ukraine, the Donetz Basin (the chief field of French investment), White Russia, Georgia and the Caucasus generally (the Baku oilfields loomed large in British interventionist aims), Vladivostok—by financial support of the White generals and by the stimulation of separatist national movements. It is perhaps worth recording that there is some evidence of a secret Franco-British arrangement, drawn up a month or so after the Bolshevik seizure of power, for the division of a large part of European Russia into “zones of influence.”

The prime movers in intervention were France and Britain. Japanese aspirations were directed from start to finish to annexionist aims in Siberia and the seizure of Vladivostok, and provided an unashamed display of greed. They were repeatedly checked by the action of the United States, whose participation in armed intervention had very little to do with the wish to protect the relatively negligible U.S. industrial properties in Russia, but was almost entirely due to the desire to assist in the formation of a Russian government strong enough to resist Japanese expansion on the Asiatic mainland.

With the failure of the series of White ventures supported by the Allies, who were themselves sorely beset by internal troubles by the end of 1920, the Bolsheviks established their right to dictate the social and economic policy of their own country. In addition, they were now able to lend strength to their repudiation of foreign indebtedness and of subservience to the *rentier* countries by a counter-claim for indemnity against the havoc wrought by intervention. The cancellation of Tsarist debts and the confiscation of foreign properties were to be weighed in the balance of Soviet-European relations for several years more, and still play their part in denunciations of Bolshevism and Bolshevik propaganda. But from 1921 onwards—and, more strikingly, after the conclusion, in April 1922, of the Rapallo Treaty

between Russia and Germany, by which each country renounced compensation for both "war" and "civil" damages inflicted by the other—they steadily lost their decisive influence.

World Revolution

The Bolsheviks had aimed at establishing world Communism, but experienced difficulty enough—as indeed they had reckoned in advance—in establishing Communism in Russia. By the end of the civil war the economic life of the country had been brought practically to a standstill, and thus supplied an insecure foundation for socialist construction. The strategy of Lenin in closing the period of "war Communism" by the introduction, in April 1921, of the new economic policy (NEP), which reversed the tentative socialised processes of production and distribution and gave every encouragement to private trading, was in accordance with practical sense and Russian necessity. NEP was designed, in the essential spirit of dictatorship, to restore the economic life of the country: it was in substance a return to capitalist practice, though inspired by a decision to *reculer pour mieux sauter*. In the same month in which it was inaugurated the Anglo-Russian commercial treaty, the negotiations for which had been begun a year earlier, was at last signed, and Red Russia and capitalist Europe formally entered into economic relations. This first commercial treaty, which virtually amounted to diplomatic recognition of the Bolshevik régime, was rapidly followed by a series of trade agreements with other countries. In all of these agreements the Soviet government preserved its monopoly of foreign trade. Lacking that monopoly, NEP—which permitted the granting of concessions to foreign capital—might conceivably have spelt the early liquidation of Communism in Russia.

A truce had been called between Bolshevism and the capitalist world. Russian economic conditions slowly improved after 1921, when revolutionary heroism was diverted from the field of battle to that of industry and agriculture. Economic reconstruction at home became the order of the day. But the Bolsheviks had not abandoned their hope of world revolution. The strict Marxist belief that socialism could not exist in one country alone had given dramatic significance to the Communist risings in Germany and the Communist revolution in Hungary, and failure in both instances had merely sharpened orthodox conviction. Thus although the Comintern was more or less kept in the background of affairs in the course of the Soviet government's commercial parleyings with the European powers at Genoa, the Hague and elsewhere, the Bolsheviks' pre-occupation with creditor claims, trading facilities and disarmament still left room for thoughts of world revolution. Following upon the long illness and the death of Lenin in January 1924, Trotsky, who was now the predominant influence in Bolshevik counsels, urged the necessity for a Soviet state elsewhere if Soviet Russia was to maintain its Communist principles. In his *Lessons of October*, he pleaded for world revolution as opposed to a purely Russian policy, emphasising the fact that capitalist Europe, far from showing signs of collapse, was exhibiting an increasing tendency towards "stability."

It was, indeed, the gradual restoration of Europe, as expressed in the stabilisation loan policy of Britain and the promised revival of Germany under the Dawes Plan, which finally spurred the Comintern to action. The choice of a new Soviet state, it would seem, had swung uncertainly between Afghanistan, Turkey and China. The Afghanistan *pourparlers*, beginning with Soviet expressions of sympathy for the pan-Islamic ideals of King Amanullah, and the signature in Moscow, in February 1921, of a Soviet-Afghan

Treaty, had been defeated by the British—in the person of Colonel Lawrence, according to the Bolsheviks ; and Kemal Pasha, after availing himself of military and financial assistance from Moscow, had proved too powerful for Soviet plans in Turkey. There remained China, which appeared to be in a specially favourable condition, in the light of Marxian analysis, for “sovietisation.” There was, indeed, an abundance of theory and statistical evidence to persuade the Kremlin that China was ripe for proletarian revolution. It was presumed further that the “commercial-colonial” link was the weakest in the British Empire, that it was British imperialism which constituted the chief obstacle to proletarian upheaval in the East generally, and that a revolutionary movement in China would have wide repercussions on British prestige in Asia and particularly in India, where it would be possible for the Comintern to wage a simultaneous campaign of propaganda. Finally, there was a degree of community of economic interest between China and Russia, and an influential section of the Chinese mercantile class genuinely desired to avail itself of Russian assistance in order to combat foreign domination.

China, therefore, it was. Lenin, it would seem, had envisaged such a project in sending his secretary Mahlin on a private tour of inspection to China in 1921. Detailed plans of Sino-Soviet co-operation had been worked out by Joffe in the following year, and the execution of the policy had been entrusted to Borodin, who made his appearance in Canton in October 1923 and thereafter worked under the direction of Karakhan, the Soviet envoy at Peking. Borodin’s long campaign of preparation was accompanied, at the height of the Trotsky-Stalin struggle, by intensive revolutionary propaganda in many parts of the world. The boycott of Hong Kong, which was in the nature of a preparatory anti-imperialist achievement, was called off owing to the enormous cost of subsidising the strikers, and a

northern Chinese military campaign was undertaken under the direction of General Galen, with Chiang Kai-shek, who had returned from Moscow in 1925, as nominal leader. A brief initial success was crowned by the occupation of Hankow in October 1926, but this victory, as has already been indicated, proved to be the beginning of the end. In the subsequent complete collapse, the White terror dealt summarily with the Chinese revolutionary movement. The Bolsheviks were forced to recognise defeat, and the sovietisation of China had of necessity to be postponed.

The Five-Year Plan and the Future of Soviet Economy

The failure of Bolshevik hopes in regard to China coincided with the development of a serious split within the Communist Party on the question of the future course of internal policy. This split was itself a reflection of the peculiar economic doubts and difficulties which confronted the Kremlin from 1926 onwards. By 1926, NEP had unquestionably succeeded in its original aim of restoring the economic life of the country ; indeed, it had in a sense succeeded far too well to be acceptable to the strict Marxian theorists of the Party. The revival of Russian agriculture had proceeded so rapidly that by 1927 pre-war agricultural production had already been surpassed ; but this revival had been achieved at the cost of carrying with it the revival of the *kulak*, or wealthy peasant, who had taken full advantages of the right to hire labour and land, with the result that class inequalities were once again becoming extremely marked in agricultural areas. Since these areas included three-quarters of the population, the Kremlin naturally viewed with growing alarm the successful re-emergence of individualist enterprise. At the same time, moreover, considerable difficulties were being experienced in the development of Soviet industry, and the exodus from the

village into the town of those poor peasants who found themselves incapable of developing their land as efficiently as the *kulak* was creating a grave new problem of urban unemployment.

By 1927 the pre-revolution industrial machine had been more or less repaired, and production was approximating to pre-war figures. From the Bolshevik point of view, however, achievement on these lines alone was entirely inadequate. The Bolshevik leaders, resolved to begin in earnest the construction of a Socialist society, relied upon a marked development of socialised industrial production as the chief means of counteracting the development of individualist agricultural production, and hoped ultimately to socialise agriculture by the introduction of modern mechanised methods. The mere achievement of having reached pre-war figures of industrial production was of minor assistance towards this end. Thus the problem with which the Party—more particularly the Politbureau of the Central Committee of the Party—was faced was either to permit the dangerous growth of a *kulak* bourgeoisie or else to effect a great increase in industrial production. This problem became increasingly urgent with the widening disparity between the low prices paid by the state for agricultural produce and the high cost to the agriculturist of manufactured goods.

The orthodox Marxists in the Party had no doubts as to the policy which should be pursued. It seemed to them out of the question that the *kulak* should be permitted to thrive at the expense of the poorer peasant (and of the urban proletariat) and at the further cost of restoring class inequalities. At the same time they could offer no very practical suggestions for increasing industrial production, owing to the absence of native capital with which the new machinery essential for any adequate increase might be purchased abroad. Nevertheless it was recognised on all

sides that, unless socialised industry advanced immediately, the prospect of ever building a Socialist state in Russia would recede rapidly.

Such, in brief, was the dilemma confronting the Communist Party in 1926-27, when external hopes still centred on world revolution. The economic perplexities expressed themselves politically in the growth within the Party of the so-called "Opposition," led by Trotsky, and including in its ranks many of the most prominent "old Bolsheviks." This section accused the Stalin group of sacrificing the poor peasants to the *kulak* and of pursuing in general a line of policy which would inevitably stimulate class distinctions and end by giving effective control of the economic life of the country to a bourgeois minority. The Opposition demanded an immediate policy of intensive industrialisation by means of crushing taxation of the private capitalist and the *kulak* and by the "correct utilisation" of Soviet bonds with world economy, and urged a simultaneous socialisation of agriculture through the encouragement of co-operative farming and the extension of electrification.

This serious internal dissension, which was greatly embittered by personal factors, was rendered doubly dangerous by the growing menace of the international political situation. The severe setback in China, and the defeat of the General Strike in Britain, followed in each instance by the rupture of diplomatic relations with Russia, revived the old Russian fears of a concerted attack by the now relatively stabilised forces of European capitalism. The Opposition did not fail to emphasise the inability of Soviet industry in its existing condition to support a struggle by means of modern methods of warfare. This argument, indeed, proved decisive. It was adopted by both sides. Voroshilov, who in his capacity of Commissar of War and chief of the Red Army was the next most important

figure, after Stalin, in the councils of the Kremlin, emphasised with increasing vigour the military unpreparedness of the Soviet Union. At the XVth Party Congress, held at the end of 1927, the decision was reached, and embodied in suitable slogans, that the intensive industrialisation of Russia together with the collectivisation and mechanisation of agriculture afforded the only means of achieving Socialism. Simultaneously the chief members of the Opposition were formally expelled from the Party.

Their expulsion at the very moment when, according to their claims, the policy which they had urged was officially adopted by the Party, saw the culmination of the bitter four-years' campaign of both sides to be considered the true successors of Lenin, who had died in January 1924 and was now an almost deified figure. In the struggle for control of Party organisation and of the resources of propaganda, Trotsky had been signally defeated: the XVth Party Congress was more or less completely hostile to him. As early as 1924 Stalin had formulated the theory of "Leninism," which he defined as Marxism of the twentieth century, and this doctrine had steadily gained ground in succeeding years. Originally intended to emphasise the continuity of the Stalin régime with the achievement of Lenin, it now served an even wider purpose. For the decision to concentrate upon a plan of national economic development implied a policy of pursuing Socialism in Russia alone—a policy which appeared to be in contradiction with the basic theories of Marx, who not only assigned the first successful establishment of Communist dictatorship to a highly developed industrial country, but also laid great weight upon the inability of a single Socialist state to maintain itself in a capitalist world. The doctrine of Leninism now had the effect of justifying the apparent departure from Marxian theory.

The decision to begin "the construction of Socialism"

had been taken. During 1928 (Russian war fears, it may be noted, were in no way diminished by the victory of M. Poincaré in the French elections of May) the Communist leaders were free to give their undivided attention to the details of what was to be known as the Five-Year Plan. Under this Plan, whose provisions stretched into every department of Soviet life, the greatest emphasis was laid upon the establishment of heavy industry adequate for the production of up-to-date war material. Large centralised units of production were located as far as possible from the frontiers—for example, in the Urals at Magnitogorsk and Uralmash—while the Kuznetz coalfield in Siberia was intended to supplant, if necessary, the vulnerable Donetz Basin. Simultaneously with the formulation of the first schemes of intensive industrialisation, the relics of NEP were liquidated and an aggressive policy of collectivisation on the agricultural front, heralded by large-scale experiments in state farming, was adopted. As part of this process of applying rationalised methods of American industry to the still predominantly small-scale agriculture, plants for the production of tractors (and/or tanks) were established under American direction, notably at Stalingrad on the Volga.

The initial problem in this remarkable and grandiose project of planned national economy was, as has been indicated, the lack of native capital. Embryonic schemes of a similar character, inspired by Marxian economic doctrine in general and developing Lenin's formula: the Soviets + electrification = Communism, had been tried out by a State Planning Commission for several years before 1928, and had been largely based upon imports of German and, to a lesser extent, British machinery. These Russian purchases, indeed, had been an important factor in the industrial revival of Germany during the Dawes Plan era, and had been financed on fairly generous credits, which had in

turn been granted to the German firms concerned through the agency of British and U.S. banks. But the vast scale of the present Plan, with its need for intensive imports not only of machinery but of technicians and skilled workers, necessitated an equally intensified development of Russian exports. It was only—or at any rate chiefly—by the development of Russian exports of oil, timber and agricultural produce, with the consequent lowering of supplies available for home consumption, that the capital cost of the Plan could be met.

On these premises the Plan was worked out in tentative detail over the entire field of economic, social and cultural activity in the Soviet Union, and came into official operation on October 1, 1928—a date that was subsequently altered to January 1, 1929. Opposition to the markedly increased volume of Russian exports immediately arose from vested interests abroad, notably from the British Royal Dutch-Shell group, which played its part in a tireless Press campaign against the alleged Soviet dumping. One of the results of this opposition was to add fresh fuel to Bolshevik war fears, and to confirm Soviet prognostications of the capitalist reaction to “socialist planning.” At any rate, the first year of the Plan passed off more or less according to calculations, the cessation of Soviet propaganda abroad greatly simplifying international relations, while the vigorous propaganda at home united the nation in the great task of building Socialism. In 1930, however, serious difficulties arose; 1928, in which year the actual work of planning had been undertaken, had been the last full year of stabilisation in the capitalist world; 1929 had witnessed an ominous downward tendency in world commodity prices, and the latter part of the year had been marked by the Wall Street collapse and the beginning of Germany’s troubles in connection with the Young Plan. During 1930 the decline in world commodity prices became steadily

steeper, and seriously complicated Soviet calculations. The inability of the Soviet government to withhold its exports, owing to the urgent need for foreign currency to maintain its credit and to pay its foreign specialists, accelerated the price decline and aggravated Soviet problems. In some quarters the intensified exports from Russia were regarded as a primary cause of the world price decline, and were attributed to Bolshevik malevolence towards the capitalist world ; but it may be sufficient to observe that, although they doubtless contributed to the sharpness of the price fall between 1930-31, the volume of Soviet exports was far too small to create such a major effect. Certainly the fall in world prices created quite as many and as serious difficulties in Soviet Russia as in any other part of the world.

By 1931 the need for still larger exports to obtain foreign currency had subjected a considerable part of the population of the Soviet Union to grave hardship and privation. The cataclysmic internal crisis in the capitalist world had removed the immediate menace of an international attack, though war fears were still employed to stimulate national effort. But Soviet problems were by no means confined to the temporary dependence upon the capitalist countries. Unexpected and far-reaching difficulties were being experienced in the actual operation of the Plan. The inability to train a peasant population in the use of machinery as fast as the machinery could be imported from abroad on credit caused widespread breakdowns and hold-ups in production schedules. Owing to the highly geared and inter-related character of the Plan, these in turn provoked a new series of industrial difficulties. An even worse condition of things became apparent in the field of agriculture. Within little more than a year of the opening of the drive towards collectivisation, more than 60 per cent of the peasantry had been organised into collective farms. Party enthusiasm here had gone too far and had proved too ruthless : the

aggressive *tempo* and manner of collectivisation had evoked a spirit of profound dissatisfaction and non-co-operation among the peasantry of the most fertile areas.

In order to meet these problems, the Kremlin fell back on the expedient of stimulating national effort by accelerating the *tempo* of the Plan and by the decision to complete the production schedules in four years instead of five. "Shock-brigade" methods and "socialist competition" were enlisted in a sustained campaign for increased output, and trials of "wreckers" demonstrated the responsibility of capitalist and *kulak* elements for industrial breakdowns and agricultural sabotage. The "third and decisive year" of the Plan, however, witnessed a slow worsening of conditions, and the final year, scheduled to end on December 31, 1932, was characterised by a decay in the morale of the Communist Party. The last months of the Plan were further disorganised by Japanese activities in Manchuria and in the immediate vicinity of Vladivostok, as the result of which troops and war material were concentrated in the Baikal region, thus still further deranging production schedules and placing a still greater strain upon the already desperately overtaxed transport system.

The conclusion of the first Five-Year Plan found the U.S.S.R. very much more favourably placed as regards munition supplies and steel and machinery production, for instance, and in a notably improved position as regards the general level of education and cultural attainment. Against these successes must be set the fact that the new giant plants and factories, apart from the fact that their products were often of very inferior quality, had been installed at a heavy cost. In the first place, the severe food hardships with which they had been purchased had caused serious and widespread discontent, particularly in the agricultural districts, which

had been compelled to surrender their produce to the towns. Secondly, the discipline of the Communist Party had been markedly weakened by the strain imposed upon the loyalty of its members, and a more sceptical and less self-sacrificing spirit had replaced the almost religious enthusiasm apparent in 1929. In the international sphere, the Comintern had almost entirely lost its prestige and had definitely abdicated leadership of the world socialist movement: internal economic exigencies had compelled the Kremlin to refrain from political activity abroad, since such activity would have left its mark on credit facilities for imports and the acquisition of foreign currency to pay for them. Thus, although Soviet Russia was and is nominally outside the sphere of capitalist economy, there can be little doubt that the crisis in the capitalist world has inflicted as much suffering upon her as upon any capitalist country.

During the early part of 1933, when the second Five-Year Plan was inaugurated, the official *tempo* of production was slowed down, special attention was given to the spring sowing and the deficiencies of the transport system, notable emphasis was laid upon the prospects of increased output in the light industries, and an exhaustive purge of the Communist Party was instituted in the hope of reviving revolutionary fervour. In the sphere of foreign relations, the advent to power of the Hitler régime and the violent suppression of the German Communist Party deprived Moscow of its most powerful foreign ally, and the Soviet government thereupon adopted an energetic policy of seeking non-aggression pacts and commercial agreements with some of its former bitter opponents, particularly the old members of the *cordon sanitaire*, Poland and Rumania. The revival of an old project, with which Sir Henri Deterding has always been closely associated, to compensate Poland for the surrender of the Polish Corridor with a slice of the Ukraine, gave particular importance to the Soviet-Polish-Rumanian

agreement, while the political *rapprochement* with France, formerly the leader of the anti-Soviet *bloc*, was carried a notable step forward by the invitation to Paris of M. Litvinov as the guest of the French government (July) and the subsequent negotiations for a Franco-Soviet commercial agreement. The re-emergence of the German military menace is thus restoring the pre-war political relationship of France and Russia. A weighty consequence of this series of diplomatic and trade agreements is that the Soviet Union is now pledged to oppose revision of the peace treaties.

The continued uncertainty in regard to Japanese intentions in the Far East has constituted a serious drain upon Soviet resources, and although the Soviets have adopted a conspicuously pacific policy throughout, the danger of Japanese expansion has awakened a very friendly attitude to Moscow in Washington. The Bolsheviks would, of course, welcome U.S. aid in the many tasks which still confront them before the Soviet Union is adequately industrialised ; and many inducements have been held out to Washington to grant the long-withheld diplomatic recognition. The sudden outbreak of anti-British feeling in Russia in the spring of 1933, culminating in the Metropolitan-Vickers trial and the lapsing of the Anglo-Soviet trade agreement, may be not unconnected with Moscow's desire to offer U.S. industrial concerns adequate opportunities in return for extensive U.S. credits for agricultural machinery and other imports. The advantages of extended trade facilities with Russia are clearly a card that the U.S. Administration at present holds in reserve. Even the new German régime, it may be remarked, in spite of its avowedly anti-Marxist inspiration, has been at considerable pains to retain, in view of the importance of Russian contracts to German industry, friendly relations with the Soviet government.

On the larger view, the future of the U.S.S.R., which has suffered severely in the past few years, is considerably brighter than that of most, if not all, other countries. The worst, indeed, would definitely seem to be over. The international idealism of Communist principle apart, Soviet Russia, with its huge untapped resources and steadily growing population, is perhaps better suited than any other country in the world for a thoroughgoing experiment in economic nationalism. Its vast area releases it from the necessity for imperialist adventures, and the low standard of living of the population offers an adequate market for its products for many years to come. The hardships it has suffered since the introduction of the Plan have been, in substance, a form of capital saving, and, now that the capital has been invested, the nation will be free to enjoy the ensuing benefits without the burden of a heavy loan service to foreign countries, while exports of food and other commodities can likewise be diverted to the alleviation of internal needs. As the internal economic situation becomes more stabilised, Soviet international credit will steadily improve, and Soviet political influence may well become once again a decisive factor in world affairs.

Whether or how soon the Kremlin will resume the leadership of world revolution, time alone can tell. The evidence at present suggests that the existing régime will be content for the immediate future to concentrate upon the improvement of the standard of living and culture at home rather than interfere with the process of capitalist decay. It is not improbable that a more revolutionary and internationally minded left wing may arise in the Communist Party, but the present right-wing policy of Stalin is likely to dominate the counsels of the Party for several years to come.

CHAPTER X

GREAT BRITAIN

Before and After the War

THE UNITED KINGDOM had shown marked signs of industrial decline in the period before the War. As far back as the 'nineties the weakness of the Victorian industrial structure, carelessly built up, on the strength of world monopoly, on individualist and sectional lines, had become apparent with the growth of the competitive power of Germany and France. The fortuitous gold boom of the Boer War period and the rubber boom of 1906-12 only partially concealed the progressive decline of the basic industries of this country. These industries were temporarily sustained by abnormal expenditure on armaments in the years before the outbreak of war, but by 1914 German competition had reached breaking-point in the Argentine, in the Near East (with the preliminary construction by Germany of the Berlin-Baghdad railway) and in the African colonies.

During the previous half-century the tendency for finance-capital and international money business to supplant British industry and trade as the chief source of national wealth had given a dangerously top-heavy character to the economic structure of the country. The increasing export of British capital implied an increasing dependence upon foreign enterprise in preference to home industry ; and the consequent readjustment of the sources of the national income gave rise to the pre-war British problem of unemployment. Of the total amount of money

raised in the City of London between 1908 and 1913, for instance, only one-fifth was for domestic purposes. The investment abroad of the remaining four-fifths not only acted as a brake upon industrial development at home, but stimulated the growth of new competitive forces assailing British supremacy.

The nightmare of hostilities over, it was assumed that we could go on from where we had left off in 1914. It was supposed, indeed, in view of the losses and destruction of war, that there would be an even greater demand than ever for British goods and services. And there was, in point of fact, a brief post-war boom in this country. This was most conspicuous in the coal industry, and was chiefly the result of the inactivity of the mines in northern France, which had been deliberately destroyed by the German armies. The coal boom, and the enormously high profits made by British coalowners, were short-lived, however. At the Spa Conference of 1920, held for the purpose of fixing the percentages of reparations as between the Allied countries, Germany was compelled to make immediate delivery to France of 2,000,000 tons of coal. This was considerably in excess of France's consumptive capacity at the time, and the French thereupon sold coal to Holland, Italy and the Scandinavian countries—the three chief European markets for British coal—merely in order to clear the sidings. The ensuing depression here made itself felt very rapidly, and helped to produce the coal strike of 1920–21. Coal apart, the attempt to satisfy war-destroyed Europe ignored the fact that war-destroyed Europe could not pay for her requirements. The illusion of the post-armistice boom was soon dissipated, in fact, by the reality of the bankruptcy of the stricken nations. By the autumn of 1920 it was sufficiently plain that the actual position of British industry in the post-war world was vastly inferior to the position of British industry in 1913.

It was true that the menace of German competition had been removed, that we were receiving tribute from Germany in the form of shipping tonnage and so on, and that we had acquired new "mandatory" powers in various parts of the world. But there had been huge and far-reaching losses to set against these small gains. This country, in paying for the War, had lost the whole of its investments, valued at £650,000,000, in the United States, and another £100,000,000 of foreign investments in other countries. We had further suffered through United States penetration of Canada and several other economic spheres predominantly British—Mexico and the South American states of the Argentine, Chile, Brazil and Bolivia—penetration having become possible through the freedom of the United States from external debt. Again, we had lost a considerable share of ownership of Russian industry, of which many of the largest plants had been controlled by British firms, together with profitable Russian connections. Our Eastern trade, particularly textiles, had been badly damaged as the result of unrestricted Japanese competition during the War, and also through the growth, largely assisted by British capital, of a native Indian textile industry. Yet again, the employment in the basic industries obtained through colonial adhesions under the mandate system scarcely compensated for the loss of employment caused by reduced armament expenditure after 1919. On top of everything else there was the loss of the German market, which had formerly been the second biggest of our foreign markets, absorbing, in 1913, 7 per cent of our total exports as against India's 13 per cent; there was the immense disadvantage, in the attempt of the City of London to recapture the world money market, of the wartime relinquishment of the gold standard; and, finally, there was the mountainous burden of war expenditure as reflected in the National Debt.

The grave rise in unemployment, signalised by the inability of industry to absorb the demobilised army, was the inevitable reaction to these new conditions. By the beginning of 1921 the country was saddled with a million unemployed. Unemployment in England, as has been remarked, was not a new phenomenon, and was inherent in the process of financial expansion abroad ; but only now did the chronic nature of the disease become fully apparent. The post-war treatment of the disease had of necessity to follow different lines from the pre-war treatment. In view of the improvement in working-class standards of living during the War, when expense had been a secondary consideration in developing the new war industries and wages had been forced up by the scarcity of labour ; in view, too, of the opulent promise of the wartime Coalition government to make England a land fit for heroes to live in, a government-aided unemployment insurance scheme, which was contemptuously dubbed by its opponents "the dole," came into force in 1921. It was doubtless fitting that Mr. Lloyd George should father the scheme, since he had probably made more generous promises during the War than anyone else.

The slump that attacked Britain within a couple of years after the end of hostilities revealed the full extent of the burden of the National Debt. As the slump settled more deeply on the country it was realised with regret that the opportunity had passed for a higher duty on war profits or even for a capital levy, either of which would have lightened the dead weight of the debt burden and the consequent high taxation. Both were to become yet more oppressive in the future as a result of this wasted opportunity.

It was in the hope of stimulating trade and industry that the British government resumed the conversations with Soviet Russia begun months before the policy of Allied military intervention finally broke down. Continued in a

more businesslike and less political atmosphere than that in which they were started, the conversations yielded, in March 1921, a commercial agreement, which left outstanding political differences very much where they were. It was economic necessity, rather than political principle, which likewise dictated British policy at the Washington Conference. It was because this country could no longer afford to maintain the old "two-power standard" that we agreed to restrict our naval construction programme and supported the United States against Japan. Britain accepted naval equality with the United States in order to avoid a race in naval armaments in which the latter had all the economic advantages; and acceptance here spelt refusal to renew the Anglo-Japanese Treaty—the first indication this country had given of an unfriendly attitude to Japan.

Britain had been equally responsible with France for the vengeance exacted on Germany at Versailles. But a marked softening of the British attitude to Germany had soon become a matter of enlightened self-interest. Prompted as much by this country's immediate needs as by a sense of danger arising from French domination in Europe, the change had been indicated plainly enough in the British attitude to the question of Silesia. Mr. Lloyd George, during the course of the deliberations of the League of Nations in 1921, had been strongly in favour of allowing Germany to retain Silesia, pleading that "if we wish Germany to pay, we have to leave them something to earn money with." The logic was impressive, but it did not disguise the fear that Polish acquisition of the Silesian coal-fields would probably injure, as indeed it did, British coal exports to the Scandinavian countries. The British objection to the principle of reparations in kind, which constituted an obvious barrier to the normal working of international trade, was a further illustration of apparent sympathy with Germany, though the objection came comparatively

late in the day and was the fruit of a pretty piece of irony. British shipping, which had played a large part in this country's pre-war invisible exports, had been assisted after the War by the seizure of the entire German mercantile marine (the most famous of the German liners reappeared under the British flag, under such new names as *Berengaria*, *Majestic*, *Homeric*, etc.), and also by Germany's obligation to construct tonnage of a fixed annual volume by way of reparations in kind. So great was the post-war contraction in the world shipping trade, however, that in 1922 the British government was compelled to decline further delivery from the German yards. From this point British disapproval of the principle of German deliveries in kind—particularly of coal to France—was unreserved.

Realisation of the vital importance of the German market to home industry was now combined with acute alarm at the growth of French power in Europe. The latter was expressed in the rise of the French-financed succession states, particularly Czechoslovakia and Poland, both tariff-bound as the result of their anxiety to develop native industries, and both assisting, in consequence, in the disorganisation of European markets. It was Britain more than any other country which stood to lose by this disorganisation, as it had lost through the disorganisation of the German market. Hostility to France grew rapidly, and took the form of a definite breach, in January 1923, with the threat implicit in the French invasion of the Ruhr.

The Restoration of the City

The City of London had enjoyed undisputed pre-eminence, up to 1914, as the financial centre of the world. But the wartime suspension of gold payments, with the consequent heavy discount of the £ (whose exchange value in New York, after the War, hung round about the figure of

\$3.50 in place of the normal \$4.86 $\frac{2}{3}$), together with the stricken condition of European currencies with which the City had traditional connections—all this made financial business between the City of London and its former foreign clients practically impossible and, in view of the prospect of the extension of Bolshevik principles to other parts of Europe, dangerous to boot. Everything else apart, the City had to face the active competition of New York, whose gold currency permitted the financing of an expanding volume of trade by American instead of British banks. Heavier taxation here, by hindering the accumulation of capital, undoubtedly put this country at a further disadvantage with the relatively tax-free United States, though such taxation, it may be noted, was only a logical development of pre-war tendencies as reflected in, for instance, the death duties legislation of Mr. Lloyd George's Chancellorship of the Exchequer.

As early as February 1920, Great Britain, in the person of Mr. (now Sir) Basil Blackett, the Treasury representative in the United States, had proposed the cancellation of all inter-governmental war debts, the existence of which was recognised as a prime cause of British financial instability. The proposal was given new and definitely official countenance, in 1922, by the famous Balfour Note. Addressed to this country's foreign debtors, the Note expressed regret at having to ask them to pay, but pointed out that American demands on Britain left us with no choice in the matter. This elliptical invitation to the United States to concur in an all-round cancellation of debts (excluding, however, German reparation obligations, which, in the opinion of Mr. Balfour as of the remaining elder statesmen of this country, were in a quite different category) showed an admirable appreciation of the position. If the Balfour Note had achieved its purpose, the countries of Europe would have been free to become creditors of the City of London

and the British liability to the United States would have been wiped out. In the circumstances the United States failed to see the benefits of this proposal, sensible though it doubtless was, and insisted upon payment. The only course open to the City, in consequence, was to fund the debt to the United States as early and on as favourable terms as possible, to return to the gold standard and to compete with the New York money market, relying upon our greater experience, superior organisation and traditional connections to carry us through.

In January 1923 the British Funding Commission, headed by Mr. Baldwin, appeared in Washington, and a debt settlement, reached after difficult and complex negotiations, was signed in June. Britain agreed to pay capital and interest at 3 per cent for the first ten years, and capital and interest at $3\frac{1}{2}$ per cent for the remaining fifty-two years, the sum total of payments amounting to more than £2,200,000,000. Little more need be said on the subject here. Whether or not the settlement was the best that could have been obtained at the time, the British government has since decided that such payments can only be maintained to the detriment of world prosperity. It took the British government nine and a half years to reach this decision.

The debt settlement with America concluded, a policy of financial restoration of Europe duly followed. It was carried out under the ægis of the League of Nations, but was actually inspired by the Bank of England, and brought useful business to the City issuing houses. Loans to stabilise currencies, and to facilitate co-operation with the European central banks, were granted to Austria, Poland, Hungary, Danzig, Bulgaria, and so on. This stabilisation loan policy found no favour in French eyes, and France's antipathy to the entire proceedings was illustrated by her refusal to stabilise her own currency or to negotiate a war debt settlement with this country, whose most considerable

debtor she was. The co-operation between Mr. Montagu Norman and Dr. Schacht, during the Dawes Plan negotiations, in stabilising the German currency was one of the most notable performances in this field of British policy, and the crowning achievement was the return, in April 1925, to the gold standard.

It is proverbially easy to be wise after the event, and easier than ever at the present day to appreciate the gross error committed in the British return to the gold standard in 1925. Nevertheless, critics were not lacking at the time to point out the dangers of the step, and to insist that the return of the pound to pre-war parity with the dollar demonstrated a refusal to realise the fundamental changes brought about by the War in Britain's position in world economy. The old rate of exchange between London and New York no longer corresponded with the realities of British international trade and commerce, and the figure of 4.86½ was in the circumstances an excessively ambitious one. In order to maintain an adequate gold reserve it was necessary to attract foreign funds to London, and in order to attract foreign funds to London the Bank of England rate had to be kept at a relatively high level, thus greatly restricting credit at home.

This policy, which was to render the City so vulnerable in 1931, undoubtedly enabled London to resume an active competitive power with New York and to regain its financial prestige and profitable connections on the Continent. Yet however satisfactory the entire course of events may have been to the private banking houses, whose influence predominates in the Court of Directors of the Bank of England, the consequences to the country at large, particularly to industry and the exporting trades, were calamitous. The City, following its pre-war tradition, was far more concerned with profitable investment abroad than with the needs of home industry ; but the " dear money " policy of

the Bank of England brought in its train all the hardships and most of the evils of deflation. The hardships were imposed deliberately ; the evils it was doubtless hoped to avoid. Yet they were in fact unavoidable—all the more unavoidable in view of the comforting belief which was held in 1924-25 that the huge volume of permanently unemployed in this country was to be attributed to the high cost of British production, by which was meant in the first place the high cost of labour. In so far as labour costs here were indeed higher than elsewhere—though by no means so high as in the United States—the diagnosis was less than a half-truth. For in Britain, “*rentier charges*”—rentals, taxation, royalties, high freight rates, the heavy burden of debenture costs in relation to the size of the producing unit, etc.—form a larger proportion of production costs than in any other country in the world. The City, however, which was naturally blind to these considerations, since so much of its business was directed to developing *rentier charges*, chose to concentrate upon the “inelasticity of British wages.” It was realised that the return of the pound to pre-war parity would inevitably yield deflationary tendencies such as the lowering of prices and the consequent lowering of wages. This was intended, indeed, as the City’s contribution to the revival of British industry.

The British difficulty in competing with foreign industrial rivals, now that the pound had been artificially forced up, did of course produce lower prices, wage reductions and a consequent contraction of purchasing power, which in turn depressed prices still further and aggravated unemployment, while the burden of the fixed-interest National Debt proved throughout a damaging handicap to industry. The latter’s concerted attempt to solve its problems by a policy of reducing wages rather than by continental methods of rationalisation and improved marketing may, possibly, have limited the rise in unemployment, though even this is

doubtful ; but the wage reductions themselves were a powerful stimulus to social unrest.

The coal industry, owing to its large dependence on export and to the fact that it was the least organised of the basic industries, was the heaviest sufferer ; and with the general stagnation of British heavy industry came the inevitable coal crisis. The recommendations of both the Sankey and Samuel Commission, each of them urging the nationalisation of royalties and large-scale reorganisation of the mines, were turned down by the Conservative government, which imposed, or allowed the imposition of, a 13½ per cent reduction in miners' wages. This led, in March 1926, to the great coal lock-out. Sympathetic action by the trade unions precipitated, in May, the British General Strike, which crumbled under the evasive policy of its leaders and the united action of the forces of authority. The British General Strike reflected not merely working-class discontent, but the state of socialist feeling throughout a large part of Europe—itself a reflection of labour sympathy with Soviet Russia.

Attacked by troubles on all sides, Great Britain sank more and more deeply into industrial depression. This was deeper and more prolonged here than anywhere else, and it is difficult perhaps to isolate the predominant cause. British rivalry with the United States has already been dealt with from the American side, and became increasingly apparent from 1925 onwards. The revival of Germany after 1924 contributed to British difficulties, and the coal lock-out of 1926 found Germany well prepared to take advantage of them. There were, too, the grave difficulties in the Far East. The Chinese boycott of Hong Kong and the general anti-British agitation, sharpened by Soviet propaganda, in China were immensely injurious to our foreign trade, while actual losses were augmented by the expense entailed, for instance, in sending a defence force to

Shanghai. Similarly, the non-co-operation propaganda of Congress in India—again attributed in part, though with hollow evidence, to Bolshevik influence—brought Britain few gains, and was exceedingly harmful to Lancashire in particular.

Out of these Eastern losses arose the somewhat violent anti-Russian attitude of the British government, culminating, in May 1927, in the Arcos raid, a fairly transparent device, and the subsequent rupture of diplomatic relations with Russia. The raid, it may be observed, coincided with the proposal of the Midland Bank to grant the Soviet government credit to the value of £10,000,000 for purchases in this country. British motives for the rupture had little to do with the official justification of it, and Russia has firmly maintained that the break was dictated, to a large degree, by the fear of vast exports of Russian oil to the British markets.

Meanwhile the weakness of this country in face of American enterprise was revealed by the wholesale purchases of numerous British concerns not only in South America—particularly the Argentine and Chile—but in England itself. American penetration into British industry proceeded so rapidly that it was found essential, in the case of numerous British companies, to insert a nationality clause in share certificates, restricting possession to British-born shareholders only. These companies, a list of which may help to suggest the chief sources of American pressure, included Argentine railways, Venezuela Oil Concessions, the Rubber Trust, the Imperial Smelting Corporation, Rolls-Royce, Imperial Airways and Marconi International Marine. The difficulties involved, however, were typified in the case of the British General Electric, whose stock had already largely been purchased, in the open market and at a remarkably high price, by American interests.

It should be noted, finally, that the City of London and

the Stock Exchange were relatively unaffected by the stagnation of trade, partly owing to their participation in the great Wall Street speculative boom and the minor orgy of "dirt-track" speculation here. The latter, which produced a brief wave of financial prosperity, was eyed with strong disfavour by the central banking authorities, and successive rises in the bank rate, designed to curb speculative frenzy in both New York and London, finally precipitated the spectacular crash of Clarence Hatry, whose activities—based in their later phase, it transpired, on forged script—had been prominently associated with the boomlet here. The Wall Street crash, which followed soon after, effectively put an end to this chapter of Stock Exchange history.

The Suspension of the Gold Standard

A new danger to London's financial supremacy now presented itself in the shape of French determination to transform Paris into the financial capital, if not of the world, at any rate of Europe. The resulting conflict became fully apparent for the first time in 1929, but had actually begun a couple of years earlier, and was implicit, indeed, in the entire course of Franco-British relations since Versailles.

British participation in the Dawes Plan had been inspired by the desire to restore Germany as both a market for British exports and as a political factor in the European balance of power. In 1925 the Locarno Pact, by which Germany and France were in turn assured of British support in the event of either of them being the object of unprovoked aggression by the other, gave formal expression to Britain's policy of restoring Germany to a position of nominal equality with herself and France. It may be noted that, although it was signed, on behalf of this country, by Sir

Austen Chamberlain, the Conservative Foreign Minister, the Locarno Pact—which was greeted as a milestone on the way to disarmament in Europe—was essentially a continuation of the foreign aims of the previous Labour government, which had been more concerned with securing disarmament than with anything else. It was thus a clear demonstration of the continuity of British foreign policy. Unfortunately, such continuity was not to be observed on the French side after M. Poincaré resumed the conduct of affairs in 1926. As has already been illustrated in an earlier chapter, the independent policy of Mr. Montagu Norman—as witnessed, for example, in the Dawes loans and in bank rate collaboration—provoked violent reactions in France, where London's attempt to regain its former financial supremacy was translated into terms of French international politics and interpreted as the defeat of French post-war aims in Europe. As an alternative method, therefore, of furthering the political policy thus endangered by the dominance of London, France decided to use the financial power achieved through the revalorisation of the franc.

Whereas British loans had been largely designed for commercial and reconstruction purposes, French loans tended to be devoted exclusively to military and semi-military ends, the construction of strategic railways falling into the latter category. It was clearly impossible, in spite of Mr. Montagu Norman's desire for the close co-operation of the world's central banks, to reconcile two such fundamentally conflicting policies. So far as British policy was concerned, the Bank of England continued for a time to enjoy the very valuable support of the Federal Reserve authorities, who retained a policy of "easy money" up to 1928 and thus facilitated this country's difficult task of maintaining the over-valued sterling on its gold basis by rendering London an attractive centre for short-term

deposits. On the other hand, the French Treasury, or the Bank of France, or the French banks—for these terms are up to a point synonymous—emphasised their refusal to join in the common cause of European construction by new tactics. Finding themselves in possession of large surplus funds as a result of the low figure of franc stabilisation, they preferred, while continuing their political loans, to keep the very considerable remainder in the form of short-term deposits which could be transferred at brief notice from one financial centre to another. The existence of these large balances, whose exact size could not be ascertained by the Bank of England—and even the Macmillan Committee were unable during 1930–31 to obtain even approximate figures, owing to the refusal of the French banking branches in London to divulge their sterling holdings—became a sword of Damocles over financial confidence throughout the world during 1929–31. The position of London was particularly insecure, since the high cost of money during those years, although it made London attractive to lenders, greatly weakened its attractiveness to borrowers, and compelled the City to concentrate largely on short-term operations with the foreign funds drawn here by high interest rates.

The co-operation which had existed between the Federal Reserve Board and the Bank of England ended abruptly with the Wall Street crash and the subsequent death of Governor Strong. For this lost co-operation the newly inaugurated Bank for International Settlements was a poor substitute. Included among the provisions of the Young Plan and representing a determined effort by the Morgan interests to stabilise the European political debts problem, the Bank for International Settlements was doubtless a logical development of central bank co-operation. But after the loss of Federal Reserve support, London was by no means anxious to welcome the B.I.S.,

whose activities, it was realised, might easily come to encroach upon many of the City's profitable preserves. The actual constitution of the Bank's board, moreover, including as it did an American chairman and a French general manager, did nothing to allay the City's fears; and when the choice of venue finally fell upon Basle the Bank of England displayed no eagerness to utilise the new organisation. Thus, having already antagonised France, the City now antagonised the United States, and from this point until September 1931 was forced to play a lone hand.

The immense disadvantages inherent in our return to the gold standard at pre-war parity with the dollar now became disagreeably plain. To begin with, the difficulty in maintaining an adequate gold reserve (the Cunliffe Report of 1919 had fixed a minimum of £150,000,000) was aggravated to a point of danger by the French habit of converting their sterling balances into gold at every fresh moment of political tension. Further, the steady deterioration in Britain's industrial position, combined with the return to office of a Labour government in 1929, helped to shake the confidence—somewhat unnecessarily so far as the highly orthodox Labour government was concerned—of foreign holders of sterling in general. Finally, the increasing burden to the government of the state contribution to unemployment insurance, and the still greater burden of financing its obligations on a 5 per cent basis (this being the fixed-interest rate on £2,000,000,000 of War Loan, representing nearly a third of the total National Debt), created fears as to how the Labour government, in the face of a decrease in revenue due to the rapid contraction in the volume of world trade, would approach the prospective budgetary difficulties.

The opening of the year 1931 found the City of London and the Bank of England singularly unprepared to withstand the "financial blizzard" which was to break upon

them in the summer. There were three independent factors which were particularly instrumental in provoking the British blizzard. First, there was the aggressive action of Mr. Norman in deliberately provoking French hostility by his attempt to save the Credit-Anstalt. In view of the hazardous equilibrium of the financial situation in this country, the action seems, in retrospect, all but inexplicable—all the more inexplicable on the longer view, since the Bank of England, it is clear, could not really afford to save the Credit-Anstalt. The temporary defeat of French policy, as has been illustrated in detail in earlier chapters, merely served to provoke an even stronger display of financial aggression. France had not long to wait for a specially favourable opportunity. The German financial structure, in the building up of which the City had taken so important a part—particularly in the supply of short-term capital—rapidly approached a state of total collapse necessitating Mr. Hoover's moratorium proposal, which was suggested in the first instance, it would seem, by the Bank of England. The negotiations arising out of the proposal caused new and serious tension between France and the Anglo-American *bloc*, and this was expressed in the first place by further inroads into this country's gold reserves. The final collapse, in spite of the moratorium, of the German banking structure in July aroused great foreign alarm as to the solvency of many prominent City concerns with heavy interests in Germany.

The second factor was the report of the Macmillan Committee on finance and industry, which had been appointed by the Labour government not long after the latter's accession to office. On July 13, the very day on which the German Danat closed its doors, the Macmillan report was issued. The report showed that on March 31 the City's short-term liability amounted to at least £400,000,000—a figure considerably in excess, needless to

say, of the existing gold reserve, which was in the neighbourhood of £165,000,000 at the time. This official estimate sharpened distrust in the solvency of the City. Within a fortnight the Bank of England lost £30,000,000 in gold, and thus reduced its gold reserve to a figure obviously inadequate to cover the City's acknowledged liabilities. A temporary credit for the support of sterling became imperative. Obviously the French authorities, who were the recipients of the bulk of the gold withdrawn, would have to participate in any such credit, more particularly in view of the already serious difficulties in which the U.S. banks were involved. Sir Robert Kindersley, a director of the Bank of England and a managing director of the British house of Lazard's (which had come to the assistance of the French government during the franc crisis of 1923, after the Bank of England had refused help), duly proceeded to Paris. He returned with the French offer, which consisted of a promise of 50 per cent of any international credit—on the somewhat humiliating condition that a corresponding amount of gold was earmarked against the French contribution. Nevertheless, the French terms for participating in the resulting credit of £50,000,000, which was shared by France and the United States, were of necessity accepted, though Mr. Montagu Norman, it may be remarked, left London a few days later for a prolonged holiday for reasons of health.

The third and final factor was the report on national expenditure of the May Committee, which was issued on July 31, the date on which the French offer of credit was due to expire. This highly unusual report prophesied a deficit of £120,000,000 in the current budget, and recommended sweeping economies, notably in the social services and in the scale of unemployment benefit. The committee of the Labour Cabinet charged with studying the report, thereupon accepted, or appeared to accept, or were ready to accept—many fine shades of assent are involved here—

the most crucial of the May proposals, but were met by the quite unequivocal refusal of the Trades Union Congress, which was presumed to carry great weight with the Labour Cabinet, to agree to the suggested economies, particularly the "cut" in unemployment benefit. A split in the Cabinet was followed, on August 24, by the resignation of the majority of the members of the Labour government.

In the midst of this grave political imbroglio, gold withdrawals from London continued. The credit of £50,000,000, which was in any case inadequate in view of the magnitude of the City's liabilities, was exhausted soon after it was contracted; and another credit, rendered more necessary than ever by the immobilisation, under the German "standstill" proposals, of the City's resources, became as imperative as the first had been. On August 25 an Emergency Cabinet had been formed from which the National government was to take shape. On August 28 the second credit of £80,000,000, again a joint Franco-American loan, was contracted. On September 8, Parliament reassembled, and a vote of confidence in the new government secured a majority of 59. On September 12 the Invergordon mutiny, caused by the flat-rate reductions in sailors' pay, took place. This, so far as foreign confidence was concerned, proved to be the last straw. On September 18 the second credit was almost exhausted, and a third credit was being canvassed. But there was general recognition by this time of the futility, as well as of the costliness, of attempting to maintain the gold standard. On September 21 the Bank of England was relieved of its legal obligation to exchange currency for gold on demand. Britain, that is, had suspended the gold standard.

The attempt to maintain it had cost the country, in addition to the original credits of £130,000,000—which were entirely dissipated—a further £50,000,000, this representing the extra cost of repayment at the depreciated

rate of exchange and also interest payment. The attempt had likewise called into being the National Government, which, having failed in its self-appointed task of defending the gold standard, proceeded to the task of maintaining confidence in sterling. In order to be allowed to demonstrate the eternal truth of the saying "as safe as the Bank of England," this coalition of parties appealed to the electorate for a "doctor's mandate." As the result of the elections of November 1931, Mr. MacDonald's National government, which was predominantly Conservative in complexion, was firmly—almost too firmly for a few of its supporters—established in power for five years.

Although as a consequence of the events of the summer of 1931 the general opinion to-day is that the error of 1925 was an appallingly bad error and that it must not be repeated at the present juncture of events, it is doubtless only fair to point out that financial opinion in 1925 had not the experience of a world slump by which to diagnose British industrial ills. That experience we have since acquired in liberal measure, though many would say it was not strictly necessary to an appreciation of the nemesis of what is loosely called "imperialism."

Imperial Relations

The year 1925 also saw a revival of the proposal, originally mooted by Joseph Chamberlain during the severe economic difficulties of the 'nineties and promptly forgotten with recovery, to create a British Empire tariff unit. This was now put forward, questions of sentiment apart, as a means for counteracting both U.S. penetration into British spheres of economic influence and the effect of unscalable tariff walls in various parts of Europe.

Although far-seeing enthusiasts like Lord Melchett urged this proposal with vigour from 1925 onwards, receiving

doubtful assistance from a crusade for "Empire Free Trade" launched by more volatile spirits, very little response was forthcoming in responsible quarters, largely in consequence of the reassertion of the City's financial power. The City's post-war sphere of action was Europe and international trade generally rather than the already heavily indebted Dominions and Colonies. Moreover, with the growth of U.S. enterprise in Canada and Australia, for instance, what potentialities these countries had as markets seemed to be beyond the reach of British competitors. With the prolonged collapse in the United States, however, and the suspension of the gold standard here, as the result of which the City was obliged to restrict financial operations on a sterling basis within the limits of the Empire, the proposal to form an imperial tariff unit—to which the Dominions and Colonies, suffering as they were from the fall in agricultural commodity prices, were in turn not unwilling to give attention—became, or appeared to become, more practicable. Finally, when the patriotic side of the National government was strongly in evidence, and the British Cabinet, excluding the minority which "agreed to differ," had definitely adopted a policy of tariffs, the conception of the Empire as an economic unit, bound by tariff agreements and perhaps ultimately by a common currency, sailed to the front of practical politics.

The scheme of an imperial tariff unit which was discussed, in the summer of 1932, at the Ottawa Conference had not a little to recommend it in the existing circumstances of a continuous contraction in world trade. But it was riddled with fatal weaknesses and contradictions. In the first place, grain and meat exports from Canada and Australia compete with similar exports from the Argentine, and "closer economic ties" between these Dominions and the mother country would entail the sacrifice of vast British interests in the Argentine. Secondly, Canada is in effect an economic

possession of the United States to-day ; the British share of foreign capital in Canada fell from 77 per cent in 1918 to 39 per cent in 1928, while the American share rose during the same years from 17 per cent to 57 per cent, the last percentage representing a value of £650,000,000. Thirdly, Australia is too remote to participate satisfactorily in such a unit ; its natural market is the Far East, and Australian wool is in fact largely purchased by Japan, and Australian wheat by China. Fourthly, there are in existence in the self-governing Dominions embryo industries, notably textiles and heavy industry, which compete directly with the mother country's chief exports and which are nourished by tariff walls, the removal of which would be vital to the mother country's interests and yet would be entirely out of the question. Fifthly, it is impossible to suppose that the Indian anxiety to create an independent native industry—heavy industry, that is, as well as a more extensive textile industry—can be overcome by any system of imperial tariffs. Lastly, the aggregate population of the proposed closed market (excluding India) for British goods would be too small to compensate this country for the loss of other markets, more particularly Germany and France, as the result of tariff reprisals.

All these obstacles became apparent at an early stage of the Ottawa discussions, and, in spite of the self-congratulatory airs with which the discussions closed, singularly little was accomplished. Since then, the arrangements entered into with the Argentine and Denmark, and the difficulties encountered with France, have tended to nullify such small advantages as the Ottawa Conference actually brought this country. In point of fact, Ottawa came far too late in the day in its attempt to raise tariff walls inside which the British Empire could enjoy advantages similar to those gained by the United States or Czechoslovakia as the result of a high tariff policy. In 1932 the export markets

which were accessible in 1922 had shrunk to very small dimensions or had mysteriously vanished.

India occupies a very special place in British imperial problems, since in respect of population it is the largest real market, as China is the largest potential market, in the world. In Victorian days it constituted an invaluable closed source for British capital export to develop railways, mines, shipping, textiles, etc. With the rise, however, of a native bourgeoisie owning a large share of lucrative native industries came the growth of Indian nationalist sentiment and the demand for a measure of self-government ; and Great Britain has tentatively embarked upon several types of constitutional reform, beginning with the Montagu-Chelmsford reforms, which were intended, at any rate in theory, to pave the way towards responsible self-government. The Indian commercial classes have been only partly mollified, however, by tariff legislation designed to protect native industry, particularly cotton and shipping, at the expense of the mother country ; and their difficulties and dissatisfactions are being aggravated at present by the growth of Communist propaganda among the working population and, still more, by the penetration of Japanese industry. Further pledges that responsible self-government—with adequate British safeguards—would eventually be granted have emerged in the course of two Round-Table Conferences, and have been implemented, though with the utmost caution, in a White Paper that is hotly contested in various British quarters. The fear that Britain may “lose” India, though commonly expressed in a form which quadruples the chances of complete loss, explains itself. The mother of Parliaments could doubtless well afford to allow Canada and Australia, for instance, with a joint total population of 20 millions, to separate themselves completely from Britain if they chose to do so. But India is another matter.

Two further factors remain to be considered in connection with imperial relations : the question of defence and that of the position of sterling. The growth of the self-governing Dominions with their greatly increased economic value has intensified the necessity for their defence, military and naval. Naval defence is of particular importance in the case of Australia, an empty continent which would provide excellent settlement for the Japanese as well as a field for further British—and even Italian—emigration. The Australian ban on immigration is designed to maintain the standard of living of the powerful labour unions against the competition of lower wages, and the defence erected against Japanese wage standards has thus given rise to a colour bar. Australian fears are well grounded, since Japan is Australia's largest customer for wool and would welcome control of such an important source of material.

This country's naval weakness for imperial ends was apparent at the Washington Conference, which left no doubt that the British Navy was of inadequate strength to face the Japanese naval menace in the Pacific unless it was assured of co-operation with another naval power elsewhere—for instance, with France in the Mediterranean. Hence the development, after the signature of the Washington Treaty, of the Australian Navy and Air Force, though these are at present still too small to carry any decisive weight. It may be noted that the Government of India likewise proceeded, after the War, with a scheme for the creation of an independent Navy, though this was soon abandoned as impracticable. Australia and India apart, there remains the question of naval protection of the vast British interests—including a virtual monopoly of the world's tin and rubber supply—in Malaya. The key of defence against Japanese aggression in all these cases is Singapore, where the construction of a great British naval

base has been held up by the enormous expense involved. Even when it is completed, however, it is doubtful whether the Singapore base will possess the strategic value that was originally claimed for it.

The entire question of imperial defence boils down, in present circumstances, to the problem of financing construction and distributing the expense between the various partners in the Empire. This in turn emphasises the importance of the proposal for an imperial currency.

The pre-war financial dependence of the Dominions on the mother country was broken in the post-war era, owing to the political freedom which permitted the Dominions to obtain capital in the cheapest market, the high money rates which existed in London being an important factor in diverting Dominion loans to New York. One of the results of Ottawa was to reveal quite unmistakably the difficulty of organising a common financial front between the partners in the Empire, possessed as they were of different currencies and different financial allegiances cultivated during the past ten years.

The problem of the Indian currency, it is true, had been tackled in 1926-27, when India was placed upon a gold standard. But this step, although valuable as a means of unifying imperial finance, was attended with serious consequences in regard to silver, upon which the former Indian currency had been based. There is, indeed, a tendency in some extremist financial quarters to regard the loss of purchasing power among the silver-using nations as a main cause of the world depression. However that may be, it is perhaps worth noting that a very unexpected consequence of the introduction of the gold standard in India was the stream of Indian gold which was attracted from vast native hoards to the Bank of England by the gold premium from the autumn of 1931 onwards. It was this unforeseen discovery of what was virtually a new goldfield

which permitted the rapid repayment of the fruitless £130,000,000 British credit.

But the case of India stands alone. No matter how attractive the idea of a common Empire currency may appear, it must be borne in mind that Canada's obligations to New York compel her to pay closer heed to the conduct of the \$ than of the £. Australia also has New York obligations, though on nothing like the scale of Canada, and could thus be linked with less difficulty to sterling. New Zealand, whose internal position, unlike Australia's, did not necessitate a depreciation of currency, was compelled, artificially, to follow sterling in order to maintain competitive power with Danish and Australian produce. South Africa, which was well capable of maintaining the gold standard, was compelled to abandon it and follow sterling by the agitation of the mining interests, which were anxious to reap the benefits of the gold premium, and by the hardships imposed upon her agricultural producers.

It follows, therefore, that any imperial currency which may be created must be closely linked with the dollar if it is to be fully acceptable to Canada and—to a lesser degree—Australia. For the rest, it is clear that the allegiance of the Dominions to sterling after September 1931 was in a great measure forced upon them by the departure of Denmark and the Scandinavian countries from the gold standard. This emphasises pretty plainly the fact that Britain's commercial ties are closer with Europe to-day than with the Dominions.

In addition to the Canadian difficulty, there is, of course, the everlasting problem of Ireland, or rather of the Irish Free State, whose economic relations with this country have been greatly complicated during the last year or so by a resurgence of uncompromising political sentiment. The political tension which exists at present between the two countries is the product of long-standing differences, and

the Irish are evidently prepared to sacrifice economic interests to further their political ideas. But it is probable that Mr. de Valera will be unable to afford to go on losing the enormous market advantages to Irish agriculture which could be gained by membership of an imperial tariff unit.

The importance to Great Britain of the imperial idea has increased with the intensification of economic nationalism throughout the world. Many of her pre-war spheres of economic activity—for instance, the United States, Germany and Russia—have now become almost entirely closed. If Great Britain is to maintain her position as a great island power—at any rate a great power whose strength is indicated by expenditure on armaments—the only field which is capable of development through British aid lies in the Dominions and Colonies. For their part the Dominions are unable to withstand alone the pressure of the world crisis upon their economic structure, and are inclined to turn, for a variety of reasons, towards the mother country as their most important market and their only source of defence. Economic nationalism for the Dominions individually is impossible, though whether the alternative of an imperial unit bound by a tariff and customs union (on the French model) would be practicable, or would compensate this country for the ensuing losses in Europe, or would be capable of defence, or would facilitate world recovery—all these are questions which need not be pursued here.

Internal Politics and the Crisis

As might well be expected, the far-reaching changes since the War in the British position in world economy have been accompanied by significant alterations in the traditional structure of party politics in this country. Before the War, the Liberal party had maintained, with the aid of Irish representation and the small Labour group, a

precarious Parliamentary majority over the Conservatives. But the pre-war Liberal party was itself a coalition of forces. By tradition the party of free trade and of the international financial interests of the City which, owing in part to their foreign origin, had been excluded during the nineteenth century from the agricultural Tory party, Liberalism embraced a Radical wing with political aims in flat opposition to the interests of the magnates of industry and finance. The latter, largely as a result of the example of Edward VII, had at last been accepted into Tory society, whose interests had also become identified to an increasing extent with new industry and foreign lending. An open cleavage in the Liberal ranks was delayed by the outbreak of war, but the effect of the delay was only to accentuate the eventual disintegration of Liberalism into a main block led by Sir Herbert Samuel, a handful of Radicals under Mr. Lloyd George, an aristocratic group led by Viscount Grey, and—in deference to the way the wind has blown—a Conservative-Liberal section of professional politicians led by Sir John Simon. In view of the collapse of the economic structure which the Liberal party represented, its present inability to form a united front is quite understandable. In this connection it may be relevant to observe that Mr. Lloyd George is the only important surviving member of the pre-war Liberal party who has not “gone into the City.”

The other great post-war political change, complementary in a sense to the break-up of Liberalism, has been the emergence of the Labour party, first as an official Opposition and then, by permission of the disunited Liberal elements, as a minority government. But here, too, the so-called party is itself a coalition of forces. Although financed and supported at the polls almost entirely by the body of trades unionism, the Labour party has by no means given undisputed leadership to the representatives of organised

labour. In both policy and leadership, in fact, it has been torn between the motives of trades unionism and of the small body of intellectuals and professional politicians who have been attracted to the Labour movement less by a sense of working-class interest than by intellectual theories of socialism. Internal division likewise characterises the Conservative party, which has retained its solid agricultural background, and is torn between the conflicting ideal of protection for home agriculture and its interest in the international financial activities of the City of London.

The inability of the traditional political parties, owing to the conflicting loyalties of their component parts, to formulate a clear policy on the affairs of the day has undoubtedly contributed to a general lack of interest in the normal business of party politics. In point of fact, very little difference can be detected in the policies pursued by the various governments since the War, although Mr. MacDonald has been perhaps more indefatigable in the cause of European conciliation than Mr. Baldwin, and the two Labour governments have been less hostile to Bolshevik Russia than their Conservative counterparts. In the face, however, of the fears of a budgetary collapse in the summer of 1931, and the still greater fears occasioned by the abandonment of the gold standard, the nebulous political programmes of the parties could no longer be maintained. The danger to their common interest in gilt-edged securities and money property in general united the Conservatives and Liberals who, supported by the non-trade-unionist element of the Labour party—which included several of the leaders—formed the so-called National government. This was returned to power, with the largest majority in the history of Parliament, by an electorate which had been stampeded into identifying the National Debt with the Nation and which had been cajoled into granting what was euphemistically styled a “doctor’s mandate.” The panic which raged

through the financial world during the summer months, when the City seems at last to have realised the post-war changes in Britain's position, was passed on to the larger public by every variety of propaganda and by practical experience in the shape of the celebrated 10 per cent cuts. The Labour vote at the elections, it should be said, contracted far less than the loss of seats would suggest, although the loss of leaders who had been associated with the Labour movement from its earliest days seemed to have reduced the party to a state of political stultification.

Although all sections of the new government were united on the necessity for balancing the budget, their unreconciled economic differences at once became apparent in bitter internal controversy. To achieve budget equilibrium, a programme of rigid economy was enforced, and import duties for revenue served as a compromise between the openly protectionist Conservatives and the free-trade Liberals. Since the task of defending the gold standard soon proved to be beyond the National government's powers, Mr. MacDonald took credit for enabling the country to slip off gold with the minimum of inconvenience.

The consequences of the suspension of the gold standard failed to correspond to the gloomy forebodings of the summer of 1931. Instead, the great outflow of Indian gold (lured by the gold premium) and the marked revival of British export trade, unintentionally stimulated by the exchange policy of the Bank of England, enabled the National government to proceed with a long overdue scheme of converting the £2,000,000,000 of 5 per cent War Loan to a 3½ per cent basis. This operation was conducted with great despatch but with the maximum inconvenience to the holders, the shock to whose income was broken by a generous bonus, and with great profit to the big financial interests, which not only enjoyed good business by way of commission, etc., in an otherwise lean year, but also reaped the benefits of the

sharp rise in security prices consequent upon the reduction in the yield on gilt-edged. The long delay, it should be noted, in converting this 5 per cent loan, which had been such a heavy burden upon the country's finances, was mainly due to the high money rates which existed in the City from 1925 onwards as a consequence of the Bank of England's vain attempt to maintain the pre-war gold parity. Incidentally, it may also be pointed out that the yield on this 5 per cent War Loan—which was chiefly held by large British interests—was considerably higher than the interest ($3-3\frac{1}{2}$ per cent) paid on the U.S. war debt, and may be regarded as every whit as responsible for the burden of taxation as the expenditure on unemployment and the social services.

The chief anxiety of the economic interests behind the National government having been allayed so far as was possible, the Cabinet next turned their attention to the more controversial problems of Protection and Imperial Preference. The Ottawa Conference promptly brought about the secession of the free-trade group led by Sir Herbert Samuel and of Lord Snowden, but without affecting the size of the government's majority. In this connection the fact that great pressure was brought to bear by the Liberal section, headed by Viscount Grey, on the Samuelites, to prevent the latter from crossing the floor of the House of Commons, may be regarded as a political reflection of the altered status of the Liberal elements in the City. Since their only field of activity was now the sterling area—that is, the Empire and the Scandinavian countries—Liberal financial interests were willing enough to accept the idea of an imperial tariff-bound unit.

The remarkable stimulation of British export trade caused by the greater competitive power of the depreciated £ led the government, ever anxious to diminish unemployment, to establish the Exchange Equalisation Account.

Although the official apologists insist that this fund exists purely for the purpose of removing temporary fluctuations in the value of sterling and thus creating the currency stability essential to international trade, its chief effect, whether or not this had entered into the calculations of the Bank of England—which is responsible for the administration of the account—has been a marked revival in our exports, particularly in the motor-car industry, where the prosperity prevailing in an alleged period of depression such as the present may not unfairly be considered astonishing. In point of fact, Britain was the only country in the world where the total annual exports in 1932 did not fall very materially below the 1931 level.

Relative prosperity of this kind in the existing conditions of world crisis has inevitably emphasised the "nationalist" bias of the National government in the field of foreign relations. In spite of the Prime Minister's enthusiasm for the *réclame* of international conferences, it is significant that all such conferences during 1932 and 1933 have been singularly barren of results. Indeed, in many instances they have served merely to formulate more sharply the lines of cleavage between the powers. The Lausanne Conference officially acknowledged the collapse of the Young Plan, but the inability to substitute for vaguely optimistic pronouncements anything resembling a constructive proposal was responsible for much international bitterness when the United States demanded payment of the December debt instalment and this country paid with a gesture of protest and France flatly refused payment. The Paris Pact of July 1932 and the Rome discussions for the Four-Power Pact would seem to be further examples of Great Britain's lack of genuine enthusiasm for international agreement so long as this country is able to enjoy its present advantages. The most important and most melancholy failure of all has been the Disarmament Conference, where the Presidency of

Mr. Henderson has greatly diminished Mr. MacDonald's opportunities for the display of his diplomatic talents—which consist, according to a French view, in first convening an unnecessary conference, then throwing it into violent confusion and bringing it to the verge of collapse, and finally rescuing it by means of a complete agreement to differ on everything of importance. Mr. MacDonald's absence from Geneva has unfortunately revealed the truth that the policy of this country is not more unselfish than the policy of any other country. Attempts have been made to disguise the truth. The proposal for an embargo on the export of arms to Japan, withdrawn under the pressure of the private armament interests and on the nominal pretext of the lack of international co-operation, was a lamentably insincere affair, while the later breakdown on the question of aerial "police" bombing completed the somewhat ignominious record of the government at this Conference, which alone holds the key to the immediate future of international peace.

Perhaps the most signal failure of the present régime is evidenced in the slightly farcical progress of the much-advertised World Economic and Monetary Conference. Here the refusal of Mr. MacDonald to adjourn a conference which could obviously reach no effective conclusions has served once again to emphasise the profound international cleavages between Great Britain and the United States, and between the gold *bloc*—that is, France—and the United States. Once again a scapegoat for failure has been produced, in this case the giddy gyrations of American policy. Yet the failure of the British government to put forward any policy, except of a purely negative character, on any subject was quite as large a factor in the general deadlock.

At the same time there would seem to be little doubt that no alternative government is at present available in Great Britain. Short of catastrophe, the vast Conservative majority in the National government is entrenched in

power until 1936. The free-trade Liberals have lost their economic *raison d'être* amidst the competing economic nationalisms of the world, while the Radical group led by Mr. Lloyd George has degenerated into a quiet family party. Meanwhile the Socialist party is once again separating into a Labour party based purely on labour interests and a body of socialists who are more anxious to establish a socialist state than to maintain trade-union organisation. So far as the immediate future is concerned, each of the traditional parties is aware that the comparative economic advantages which Great Britain, in relation to other countries, enjoys at the moment are only temporary and are likely to be short-lived.

CHAPTER XI

PROSPECTS AND CONCLUSIONS

THE FOREGOING survey of post-war world politics was begun before the World Economic Conference had commenced its deliberations, and the main body of the book was written in the course of the preparations for the Conference and during the period of actual discussion in and outside of the Geological Museum at South Kensington. The writers met with obvious difficulties in keeping pace with the rapid movement of international events in the summer months, but the relatively slow development of major economic issues made it possible to take a long view with some prospect of achieving accuracy.

The World Economic Conference was notable as the first meeting of the political leaders of the nations for the avowed purpose of discussing so-called economic problems. Yet although, as has been demonstrated in the greater part of this book, the majority of the practical issues confronting the nations of the world to-day are capable of clear definition only in their economic context, the world's statesmen preferred to present those issues in terms of ethical and philosophical concepts rather than of economic factors, until the crushing impact of world depression finally compelled them to make public admission of the priority of the economic over the political factor.

The Conference assembled as a consequence of the Lausanne Conference of the previous year, which had sanctioned the virtual cancellation of German reparations and had optimistically assumed the simultaneous cancellation of war debts. It had at last been officially recognised

PROSPECTS AND CONCLUSIONS

at Lausanne that world economic conditions prevented Germany from fulfilling her reparation obligations, and that the payment of war debts had resulted in serious interference with the normal functioning of "world prosperity." From this belated recognition of the facts arose general agreement to hold an international conference for the purpose of examining, and ultimately removing, all known barriers to the flow of international trade, and for the abolition of the now general world slump. The delegates accordingly assembled in London, in June 1933, under the presidency of Mr. Ramsay MacDonald.

The Conference, historically significant for the reason already mentioned, has perhaps another claim to remembrance as one of the most futile international conferences devised by eminent statesmen. During the very first few days the line of political discussion which was inaugurated in responsible quarters presented a fatal obstacle to the smooth progress of intrinsically economic discussions, and by the end of the first week it was plain that the Conference was on the verge of collapse. The President, who apparently dared not allow the Conference to break up until the House of Commons had adjourned—for Mr. MacDonald had no desire, it would seem, to indulge in a public confession of failure—managed by a variety of expedients, some of them not lacking in comedy, to prolong the sessions until the House had risen. But at the end of six weeks the amount of effective progress on the issues which the Conference had been summoned to consider was *nil*.

The failure of the Conference was in a sense spectacular. But it was scarcely surprising, least of all in view of the obvious incapacity of the majority of the delegates for the task before them. With only a few exceptions, the leading delegates were experienced politicians trained in the old methods of parliamentary party debate and painfully ill

at ease in the company of their "expert" advisers. The U.S. delegation was perhaps the least successful in concealing its discomfort at the entire proceedings, while the French, who have for a good many years given up the pretence that political and economic issues may with propriety be dissociated from each other, were the most decisive and clear-cut in their attitude. Most of the other delegations, it would appear, were in their familiar element. The immediate cause of failure was the refusal of the United States to agree to any measure of stabilisation of the exchanges. In view of the overriding importance of the monetary factor, this naturally rendered useless any discussion of other topics relating to the restoration of international trade. The British delegation, which was as completely at a loss as the American in the matter of formulating a policy, was thus spared the ignominy of avowing the fact, and the entire blame for the collapse of the Conference was safely laid on American shoulders. Yet a decisive statement of British policy might well have served as a rallying point for constructive proposals. Instead, however, the French remained unshaken in their loyalty to the gold standard, the German delegation availed itself of the opportunity for propaganda and pursued private negotiations for whittling down Germany's foreign indebtedness, and the head of the Soviet delegation found occasion to attend to a variety of affairs of more realistic purport than the speeches in the Geological Museum.

The *débâcle* of the Conference inevitably resulted, in almost every country, in a turning inwards of economic policy. Economic internationalism had proved, to all intents and purposes, a failure; economic nationalism was the only course left. From a severely practical point of view, this conclusion was not in itself unduly harmful, and merely represented a strengthening of tendencies which had been dominant since 1929. A far more disastrous

PROSPECTS AND CONCLUSIONS

consequence of the failure of the Conference was the stimulus thereby given to the psychological and imponderable approach to economic problems. The mere material aspect of economic nationalism seemed inadequate to the politicians, who now chose to present their country's economic difficulties in the old pre-war garb of ideals of "national honour" and a "historical mission."

This new phase of economic nationalism was particularly notable in Germany, where the big industrial and agricultural interests were consolidating their control of the state behind the verbal smoke-screen of nationalist propaganda. Dr. Schacht, the financial leader of this policy, confessed, with disarming candour, in October that, "if the nation's self-respect is preserved and its moral aspirations satisfied, it is more easily disposed to be content with a low standard of living." In Great Britain the isolationists, who have resurrected a variety of jingo slogans, have shown increasing activity since the early autumn, and the nation has been invited by one of its newspaper peers "to rebuild Britain with reckless courage and romantic dreams." In Italy the glory that was Rome is a greater and more omniscient glory than ever, and Signor Mussolini grows increasingly eloquent on the theme of Italian leadership in Europe. In Japan, General Araki and the patriotic societies have propagated with frenetic zeal the historical mission of the Japanese to rescue Asia from the clutches of the white man. In all of these countries such slogans and appeals are designed to conceal from the population a clearly defined programme of economic imperialism, calculated to win decisive advantages for powerful sectional economic interests. Even in the United States, it may be remarked, the isolationist recovery programme upon which President Roosevelt embarked was founded less upon economic principles than upon characteristically American methods of psychological appeal.

This unanimous revival of patriotic fervours inevitably assisted in turn in the collapse of the long-protracted Disarmament Conference. Not unnaturally, the atmosphere of mutual suspicion and jealousy which had been generated by tariff legislation since 1929 had done little to create a favourable attitude towards disarmament among the world powers. The final blow to the Disarmament Conference was the handsomely stage-managed withdrawal of Germany from the League. Thanks in part to the clumsy and wavering diplomacy of Britain, the German government has been able to achieve its end in respect of the ability to rearm at will, and is at the same time in a position to prove to the world that Germany has been the wronged party, since Great Britain and France, by refusing to disarm, have failed to abide by the terms of the Treaty of Versailles.

The collapse of the World Economic Conference and of the Disarmament Conference, both of which had been organised under League auspices, together with the withdrawal from the League of both Japan and Germany, sounded the death-knell of the League of Nations organisation, at least in the form the world has known since its formation after the War. From the beginning, the League, which has always been suspected by capitalist interests of developing labour sympathies through its International Labour Office, has been eyed with considerable misgiving by three powerful economic vested interests—the armament trusts, the white slave traffic, and the drug traffic. Of these three interests the armament industry has of course had the most intimate contacts with European governments. The sustained record of failure which has marked all efforts at disarmament in Europe must be attributed for the most part to the sustained propaganda, expressed in a great variety of direct and indirect forms, of those agencies likely to be adversely affected by any kind of international disarmament. It was fitting, therefore, that the culminating

PROSPECTS AND CONCLUSIONS

failure of the seemingly endless disarmament talks at Geneva should be precipitated by the Nazi régime, which has always enjoyed the very real support of German heavy industry (that is, the armament interests of Fritz Thyssen and the Ruhr iron-masters in general), and which, according to specific charges, as yet not denied, made in the French Press and elsewhere, has *also* been assisted by the French-controlled Skoda and Polish armament firms ; and, indirectly, by the U.S. armament industry, through the intermediary of General Motors Acceptance Corporation, the financing subsidiary of General Motors Corporation, of which the president is Mr. Du Pont, of Du Pont, de Nemours.

.

In point of fact, the adjournment of the Disarmament Conference in October was merely the political acknowledgment of the fact that European armament competition had been resumed on an intensive scale in the summer months. Economically this process of invigorated arming expressed itself in a marked revival in heavy industry, notably in Great Britain, Belgium, and Germany ; in a conspicuous demand, chiefly on the part of Germany and Japan, for scrap-iron ; and in a remarkable increase in the export of nickel from Canada to Great Britain and Holland, in the latter instance *en route* to Germany. Germany is also reported to have made big purchases of Latvian wood pulp, which is an important constituent in the manufacture of nitro-glycerine. It should be noted, finally, that a sharp rise in armament shares had occurred on the European bourses as early as May 1933, in anticipation of increased demand. In that month the chairman of the powerful French firm of Hotchkiss assured the shareholders that,

although he could not forecast the future of disarmament, the policy which the directors were pursuing was such as to give "complete satisfaction to the shareholders."

In the nature of things, intensive armament manufacture in a period of depression has its uses to-day no less than in the years before the War. The revival in armament activity had a stimulating effect upon international trade, and permitted politicians, particularly in this country, to point to a gratifying increase in the numbers of the employed and even to salute the lifting of the depression. The threat of war which is implicit, however, in this expansion of trade has expressed itself plainly enough in a revival of the secret diplomacy of the pre-war period, and in a fevered search for allies, pacts of neutrality, and the like. The repercussions of the collapse of the international ideal, as evidenced in the virtual rejection of the League of Nations and the rebirth of militant nationalism, political and economic, are naturally world-wide, and may conveniently be summarised in four main groupings—Europe, the Far East, the United States, and Britain.

In the European zone the initiative has definitely passed from France to Germany. With the advent to power of the aggressive Nazi-von Papen coalition, the French were forced for the first time to assume the defensive by opening up negotiations for a defensive alliance with Soviet Russia. In Germany itself the firm establishment of the Nazi-von Papen dictatorship permitted an outburst of "psychological" activity which possibly compensated the German people for the absence of any very material improvement in their economic condition. Large demands for equipment and uniforms, etc., stimulated the particular trades concerned; but, in spite of the official German figures of astonishingly reduced unemployment, it is doubtful whether unemployment has in fact declined to any material extent, though Jews in employment have

PROSPECTS AND CONCLUSIONS

been replaced by Nazis, Communists have been herded into concentration camps, voluntary labour camps have been formed, and, judging by the sudden jump in the German output of steel, a small amount of rearmament would seem to have taken place. Prospects in all branches of export trade remain extremely unfavourable, and the world-wide Jewish boycott of German goods and shipping continues to exercise a depressing influence.

The failure of the new régime to make any real progress in the tasks of economic rehabilitation is to be ascribed in the first place to the markedly big capitalist influence in the government. Herr von Papen safeguards the interests of the bankrupt big agricultural estates, while Dr. Schmitt, a leading insurance director, who is the new Minister for Economics and a close associate of Herr Thyssen, watches over the interests of the industrial bourgeoisie. Herr Thyssen himself is an implacable enemy of Socialism and a bulwark against the socialistically inclined elements in the Nazi movement. So far as German financial policy is concerned, he would doubtless favour inflation as a means of reducing the capital liabilities of his industrial interests. Dr. Schacht, however, has so far opposed inflation, and has concentrated upon the reduction of Germany's foreign indebtedness by means of a partial moratorium and the virtual departure from the gold standard. In his attempt to consolidate the government's internal position he has apparently enjoyed the co-operation of the Bank of England and the City of London, more particularly the firm of J. Henry Schroeder. This co-operation, as the apologists for the Bank of England have emphasised, entails no political sympathy for the Nazi régime, and is "purely financial." But any such restoration of German credit must obviously have assisted Germany in paying for its greatly increased imports of armament material, such as nickel and scrap-iron. Even allowing for the effect of Germany's refusal to meet its foreign

obligations in full, it is obvious that very favourable credit terms must be available to German interests to permit a vast increase of imports at a time when German exports are falling steadily.

In foreign policy the German government is clearly divided. The markedly imperialist bias of the Nazi movement shows distinct signs of a loss of momentum in face of Germany's evident isolation in Europe. Moreover, an influential government group led by Herr von Papen has long been working, in collaboration with M. Francois-Poncet, the French Ambassador in Berlin and at one time head of the Information Bureau of the Comité des Forges and a director of the French steel interests concerned, for a Franco-German *rapprochement* in the field of heavy industry ; while new trade discussions are at the moment of writing being pursued in Paris between German Foreign Office experts and the French Ministry for Commerce. Herr von Papen, indeed, has on several occasions shown himself willing to be remarkably accommodating in the matter of the Saar basin, though without evoking any very favourable French response. With the exception of Italy, which has its own tortuous ends in view, the only country which exhibits any sympathy for Germany in her isolation is Japan, which is similarly situated in the Far East. The prospect of German-Japanese collaboration is at present the most serious menace to the peace of the world.

In France the economic position continues to deteriorate. The only great power which is unequivocally left on the gold standard, she finds that the steady decline in exports and the falling off in the tourist trade are making serious inroads into the tax-paying ability of the nation ; while the introduction of government-guaranteed prices for agricultural produce, although it has gone some way towards pacifying the farming community, has greatly aggravated the precariousness of government finances. In October the

budgetary problem once again expressed itself in a political crisis, with which it is most unlikely that the existing Chamber can cope successfully. M. Daladier's Premiership lasted considerably longer than had been expected, but only owing to the postponement of the discussion of French budgetary difficulties. He fell almost as soon as the budget debate opened, and was succeeded by M. Albert Sarraut (whose brother, it may be remembered, is the chief proprietor of the *Dépêche de Toulouse* and perhaps the most notable power behind the Radical party), who at once voiced Radical economic opinion in emphasising the necessity for developing the French colonial empire as a closed market. M. Sarraut's Premiership, however, is likely to be brief.

In international affairs the most striking feature of French policy has been the revival of the old pre-war Franco-Russian friendship, inaugurated by M. Litvinov's state visit to Paris, which was in turn followed by M. Herriot's visit to Moscow and the subsequent flight to Moscow of M. Cot, the French Air Minister, and a French air armada. French influence has also hastened the resumption of friendly relations between Soviet Russia and her former enemies, Poland and Rumania, while Franco-Polish relations have simultaneously resumed their friendly tone, as signalled by the visit of Colonel Beck, the Polish Foreign Minister, to Paris. The economic union of the Little Entente has likewise been taken a step further by the proposal of General Weygand, the French Chief of Staff, to pool the military resources of the three states concerned, and by the General's visit to Prague, in October last, for the purpose of formulating a common line of action. As the successor of Marshal Foch, General Weygand is naturally in close touch with the parties of the Right and with the Comité des Forges. He is said to be definitely in favour of granting Germany permission to rearm rather

than of acquiescing in the disarmament of the other states of Europe—a preference which would seem to conform, needless to say, with the interests of the Comité des Forges, which is the chief source of armament supplies to the states in question.

The resumption of friendship with the U.S.S.R. offers a pointed illustration of the conflict of interests underlying French political crises. On the Soviet side, one of the chief issues at stake was the attitude of France in the event of war between the U.S.S.R. and Japan. The French Centre government, anxious in turn to ensure Soviet assistance for defensive purposes in the event of Franco-German hostilities, was prepared to consider projects of support, or at any rate of neutrality, in regard to Soviet fears in the Far East. Simultaneously, however, French industrial and financial representatives of the Right were discussing in Tokio details of financial assistance for the development of Manchukuo, a joint Franco-Japanese company having recently been formed for that purpose; and Senator Honnorat, the president of the Franco-Japanese Society in Paris, was decorated by the Mikado, in October, with the highest honour ever bestowed upon a foreigner.

The development of Japanese militarist aggression, based upon a steady growth of export trade, continued unchecked during the summer and autumn of 1933. The militarist junta strengthened its hold on the government by forcing the retirement of the aged Count Uchida from the post of Foreign Minister in favour of Mr. Hirota, one of the founders of the notorious Black Dragon patriotic society. Further, the ambiguous status in the government of the Ministers of the fighting Services has been clarified by the issue of new regulations, as the result of which the final authority in all Service affairs is now held by the Chief of Staff of the Army and the Navy. The effect of this innovation will be still further to strengthen the political

as a pretext for the general expansion of the Japanese armament programme.

The developing menace of Japanese imperialism to American trade in the Far East was only one of the numerous major problems confronting the new U.S. Administration during the latter's first six months of office. In this connection, a big programme of naval construction and the gradual establishment of diplomatic relations with the U.S.S.R. have been the chief features of American policy. Further measures were held in abeyance, since President Roosevelt, was absorbed in his task of internal economic rehabilitation. In no other country, except possibly Soviet Russia, has the economic aspect of government so absorbed the political administration as in the United States during the summer and autumn of 1933. Unfortunately, this phase of governmental realism coincided with the return to office of the Democratic party after an interval of twelve years—including the most prosperous period the United States has ever known—in the wilderness. Almost inevitably, therefore, national economic recovery in the United States tended to assume the character of a Democratic "racket," and the grandiose schemes for stimulating the country's economic life and for instituting a "new deal" became identified at the start with that distribution of "patronage" with which the opening of a new Presidential term of office is traditionally celebrated.

Having first surrounded himself with a variegated group of experts, professors, and journalists, perhaps somewhat flatteringly designated the "Brain Trust," the President appointed as head of the National Recovery Campaign General Johnson, a business partner of Mr. Bernard Baruch, who had appeared some years previously before a Senate Committee of Enquiry to answer questions regarding the use of inside political information for stock-market operations during the Democratic régime of President Wilson.

PROSPECTS AND CONCLUSIONS

The National Recovery Campaign was soon in full swing. Comprehensive and somewhat optimistic schemes for raising the price-level of commodities, and for strengthening Wall Street prices, were devised with astonishing fertility by the Brain Trust, and—perhaps less astonishingly—achieved only an ephemeral degree of success. Since the problems facing the U.S. economy were generally regarded as fundamentally monetary in character, great emphasis was placed upon the exchange value of the dollar. Here considerable hostility to the U.S. line of action was evinced by the French, who had been outraged by the U.S. suspension of the gold standard, and by the British, who possessed in the Exchange Equalisation Fund a powerful instrument for neutralising the effects of a depreciated dollar—such at least was the American view of the purpose of the fund. Accordingly, after hopes or fears of inflation had caused a brilliant but brief recovery in Wall Street and commodity prices, the recovery campaign took a further turn. It was realised that the key to the problem lay in greater mass purchasing power. New projects of shorter hours and higher wages were, in consequence, hurriedly formulated, and an attempt was made to draw up codes for the various industries.

This move had two immediate results. In the first place, it antagonised the big capitalist interests, which were in any event predominantly Republican ; secondly, it helped to antagonise the American working classes, for whose benefit it was largely intended. The industrial workers hastened to form independent labour unions, as permitted by the codes, and proceeded to organise strikes as a reply to flagrant and alleged breaches of the code by the employers, who retaliated by the violent methods of strike-breaking customary in the United States. Popular doubt of the efficacy of the new deal was meanwhile fortified by the fact that very little progress had been made with the

basic problem of banking reorganisation, although such reorganisation alone could render effective throughout the country any new monetary policy devised in Washington. Simultaneously the growing impatience of the heavily indebted agricultural community at the delay in effective price-raising took the form of farm strikes and the refusal to permit the transport of supplies to the towns. Briefly expressed, the economic condition of the United States after six months of the Roosevelt experiment was very little better, and in many respects was considerably worse, than in the preceding months. An enormous expenditure of popular enthusiasm had, in fact, been spent on the recovery campaign to little purpose.

The failure of the Roosevelt experiment may prove intensely disappointing to those who cherish hopes of government control of industry or of national economic* planning in general. The entire question of effective authority in the United States apart, however, the failure loses much of its significance for the foreign observer when the peculiar local conditions of the experiment are borne in mind. In the first place, the U.S. government possesses no permanent and experienced Civil Service, such as exists in this country or in France, to administer its decisions ; the execution of the Federal government's schemes must be delegated to the local state authorities, who are often men of very mediocre ability and who are subjected to numerous forms of local pressure. Secondly, the tradition of "graft" which pervades American public life is a severe handicap to the impartial enforcement of any government measure. Thirdly, the somewhat volatile political character of the population of the United States does not assist sustained national effort. The majority of the urban population, it would seem, still believe that the era of prosperity, from 1923-29, was due to their own efforts, reinforced by the "ballyhoo" of stunt salesmanship and

commercial uplift. The world causes which operated in favour of the United States during those years are still not generally recognised, and the belief would appear to persist that a fresh application of economic "ballyhoo," perhaps of a more intensive variety than before, is all that is required for the restoration of prosperity.

World factors, nevertheless, are at present unfavourable to so pleasing a prospect. The immediate outlook for the United States is not attractive. Depression is as deep as ever, unemployment is rising ominously, and violence is becoming an entirely normal feature of economic difficulties and distress. In many states, legislative and economic separatism is markedly to the fore, and this in turn reduces what chance there remains of national recovery. So far as the vast numbers of the industrial unemployed in the Eastern and Middle-Eastern states are concerned, there would appear to be no real prospect of absorbing them into the economic life of the country, except perhaps by a vast scheme of small-scale agricultural settlement in the still relatively empty states of the west. Much might happen in America, however, before such a scheme was carried into effect.

Great Britain has presented a very different picture during this same period. Ruled by a government whose policy has been singularly indefinite on all major issues and which has chiefly consisted in refraining, in so far as was possible, from intervention in private economic enterprise, the country has shown pronounced signs of economic stability and even of improvement. The factors which have brought about this odd state of affairs, however, are largely world factors ; and, with the exception of the Exchange Equalisation Fund, which has so effectively rolled out exchange fluctuations that the pound sterling for most of the year remained at a substantial discount to the franc and the dollar, they are beyond the immediate

control of the British government. Thanks to this discount on the £, our export trade has continued to make inroads into former U.S. markets, notably in South America, where the conclusion of the exchange agreement with the Argentine has permitted the repatriation of dividends to this country, and where U.S. difficulties in Cuba have simplified the task of rendering Great Britain popular. Yet another consequence of the exchange position has been a marked reduction in the number of British visitors holidaying abroad, and an increase of foreign visitors to this country, with gratifying results in both instances. The government conversion operation in War Loan, by reducing the yield on gilt-edged securities, stimulated activity on the Stock Exchange in the search for a higher yield on industrial securities, and encouraged general conversion operations to reduce debenture debt, etc.; while the increase in the price of gold in terms of sterling has brought greatly enhanced profits to the largely British-owned gold-mining industry. Further, the weakened economic position of many small countries, such as Denmark, has enabled the government to wrest decided economic advantages in return for such favours as the continued entry into Britain of Danish agricultural produce. Finally, the resumption of general armament activity has had a very beneficial effect upon employment, the gains in heavy industry having reacted favourably upon the coal industry, railway traffic, and trade generally.

This last factor constitutes, indeed, a most remarkable paradox of modern civilisation. The British government, which has nominally been straining every nerve to bring about disarmament, finds that the more unsuccessful are its efforts, or alleged efforts, to promote disarmament, the more satisfactory is the country's economic condition. Torn in this fashion between the hope of international peace in the indefinite future and the immediate anxiety

for a degree of relative economic stability at home, the National government has preferred to see an improvement in the numbers of the employed in Britain rather than a successful conclusion of the Disarmament Conference. Like most modern governments, indeed, it has tended to make a virtue of short-sightedness, not doubting the truth of Sir Norman Angell's celebrated dictum that war does not pay in the modern world, but similarly not ignoring the truth that preparations for war have a very stimulating effect upon the economic system prevailing in most countries of the world at the present time.

The highly developed and scientific character of modern armaments gives some three or four countries a virtual world monopoly of their manufacture. Great Britain occupies what is possibly the foremost place among these countries in respect to air and chemical armaments. Thus it is the powerful position of the British armament industry and its key importance in the British economic structure which explains the lack of genuine enthusiasm for disarmament displayed by the National government, particularly by the Secretary of State for Foreign Affairs, and which also accounts for the friendliness towards the Nazi régime in Germany demonstrated by the City of London and certain powerful organs of the Press, which are constantly dilating upon the insecurity of our defences. At the present day Germany represents the largest untapped market in the world for armaments; and, if hostilities break out on the Continent, it is perhaps inevitable that the British armament industry should be anxious to have the opportunity of supplying Germany. Hence the vigorous campaign of propaganda against the Locarno Pact, unwavering adherence to which might deprive this country of considerable economic advantages.

The present relatively privileged position of Britain in world economy is not likely to be of long duration. The

heavy discount of the £ to the dollar has already disappeared, and, since the French exchange will be unable to sustain its present unique position for a further indefinite period, British export advantages must soon be still further curtailed. Competition for export markets, in fact, will once again be resumed on equal terms between Great Britain, the United States (whose eclipse, though likely to be prolonged, will not be everlasting), and Germany ; while the steady increase of Japanese exports, which must continue if the present régime in Japan is to endure, will necessarily inflict further losses on British industry. Armament construction, its psychological influence apart, cannot continue without interruption, owing to the strain on the exchequer. Major problems of India, Egypt, Palestine, Malta, and the colonies remain unsolved ; the menace of resurgent Turkey, armed with French (and Russian) equipment, threatens the Near East ; while at home a definite and militant revival of Socialist feeling may, in the not too distant future, provoke in the city of London a marked "lack of confidence," with incalculable consequences upon the economic structure of the country. Left to itself, the economic future of Great Britain is at the mercy of a complex of external forces. Short of catastrophe, however, it is probable that internal politics, as expressed, for example, in the party issue of nationalisation of the banks, will prove the decisive influence in re-shaping the economic life of the people and in instituting new economic relations in society. This does not rule out the probability that the advent of economic crisis in Britain would precipitate, as it has precipitated in other parts of the world, one or other form of government by dictatorship.

